

# MONTGOMERY COUNTY MARYLAND

## *Comprehensive Annual Financial Report*



*Fiscal Year 2002*

**July 1, 2001 - June 30, 2002**  
**Rockville, Maryland**



# MONTGOMERY COUNTY MARYLAND

## *Comprehensive Annual Financial Report*



**Prepared by the  
DEPARTMENT OF FINANCE**

**Timothy L. Firestine, Director  
101 Monroe Street  
Rockville, Maryland 20850  
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**Fiscal Year 2002  
July 1, 2001 - June 30, 2002**



**Montgomery County, Maryland**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2002**  
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## **FINANCIAL SECTION**

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2001 M Street, N.W.  
Washington, D.C. 20036

## **Independent Auditors' Report**

The Honorable County Council  
Of Montgomery County, Maryland:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2002, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 62% and 92%, respectively, of total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the County's aggregate discretely presented component units financial statements, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I. D. to the basic financial statements, the County adopted Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, Statement No. 37, *Basic*



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*Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001.*

The management’s discussion and analysis on pages 3 through 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County’s basic financial statements. The combining and individual fund financial statements and supplementary schedules listed as supplementary data in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2003 on our consideration of the County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**KPMG LLP**

January 17, 2003



## **Management's Discussion and Analysis**

### **INTRODUCTION**

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent year's financial needs; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns.

The MD&A is designed to focus on the current year's activities, resulting changes in the County's financial position, and currently known facts that may have a significant effect on the financial position of the County now and in the foreseeable future. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The government-wide assets of the County exceeded its liabilities at the close of FY02 by \$1,665 million. That amount is net of a \$314.3 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$774.8 million at June 30, 2002. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets \$460.5 million.
- The County's total government-wide net assets decreased by \$7.4 million.
- As of the close of FY02, the County's governmental funds reported combined ending fund balances of \$518.8 million, an increase of \$7.6 million over the prior year's ending fund balances. Of the total ending fund balances, \$192.5 million is available for spending at the County's discretion.
- At the end of FY02, unreserved undesignated fund balance for the General Fund was \$72.9 million, or 4.3 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$117.7 million during FY02. The key factors in this increase are:
  - The issuance of: \$160 million in general obligation (GO) bonds, \$146.4 million in GO refunding bonds, \$26 million in revenue bonds, \$26.7 million in revenue refunding bonds, and \$37.9 million in lease revenue bonds.
  - The retirement of: \$242.5 million in GO bonds (including \$143 million refunded), \$31.4 million in revenue bonds (including \$25.7 million refunded), and \$11.1 million in certificates of participation.GO and revenue bonds were refunded in order to save \$6.3 million (\$4.2 million GO and \$2.1 million revenue bonds) in future debt service payments.

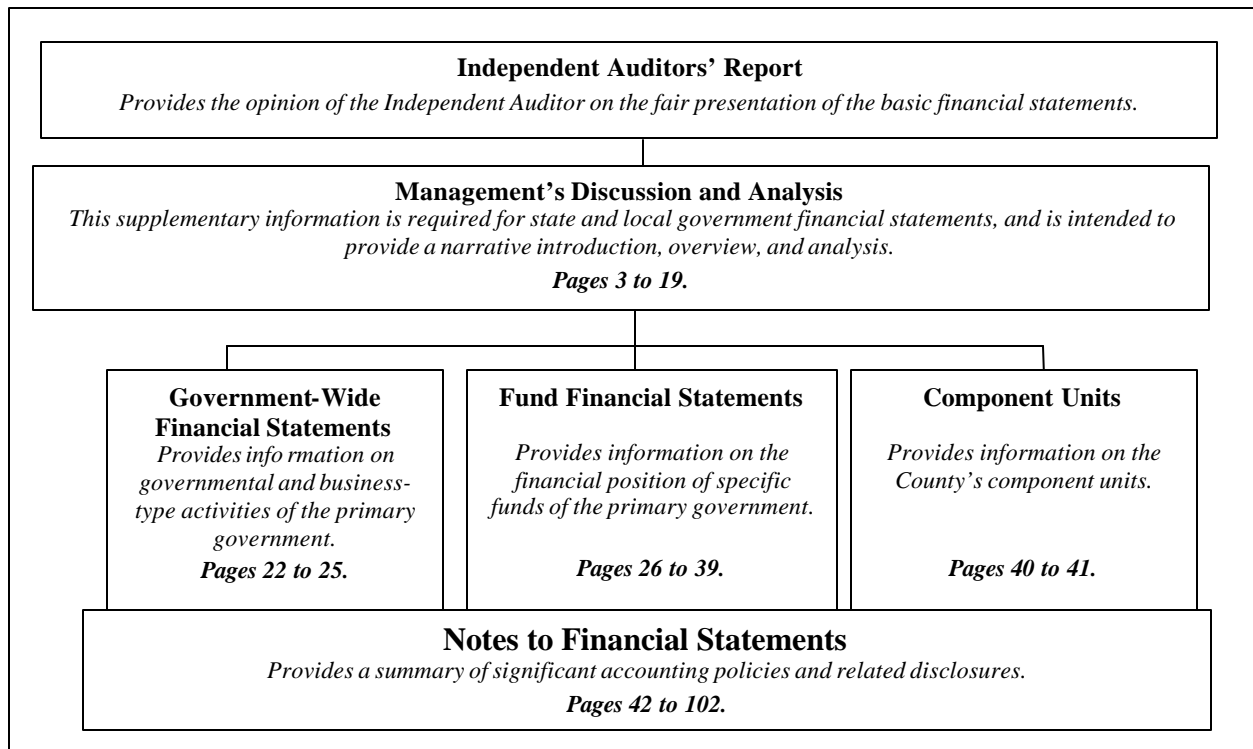
### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and

fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below.

This MD&A is intended to be an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### Organization and Flow of Financial Section Information



### Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement, for the first time, reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees,

intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste disposal and collection, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery Community College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

## **Fund Financial Statements**

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

**Governmental Funds** – Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the governmental activities column (in the government-wide statements). The County has three major governmental funds – General, Debt Service, and Capital Projects – and 18 nonmajor funds (17 special revenue funds and one permanent fund).

**Proprietary Funds** – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste disposal and collection, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.



Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County’s programs. The County’s fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

## **FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND: GOVERNMENT-WIDE FINANCIAL STATEMENTS**

As this is the first year the County has included MD&A, only information pertaining to FY02 is presented. In future years, when audited prior year information is available, a comparative analysis of government-wide financial information will be presented.

### **Statement of Net Assets**

The following table presents a summary of the Statement of Net Assets for the County as of June 30, 2002:

<b>Summary of Net Assets *</b> <b>June 30, 2002</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Assets:			
Current and other assets	\$ 1,129,469,059	\$ 182,521,905	\$ 1,311,990,964
Capital assets, net	2,140,484,901	165,197,141	2,305,682,042
Total Assets	3,269,953,960	347,719,046	3,617,673,006
Liabilities:			
Long-term liabilities outstanding	1,517,636,253	115,275,773	1,632,912,026
Other liabilities	287,255,835	32,505,893	319,761,728
Total Liabilities	1,804,892,088	147,781,666	1,952,673,754
Net assets:			
Invested in capital assets, net of related debt	1,492,551,254	78,523,152	1,571,074,406
Retricted	302,725,910	105,554,109	408,280,019
Unrestricted (deficit)	(330,215,292)	15,860,119	(314,355,173)
Total Net Assets	\$ 1,465,061,872	\$ 199,937,380	\$ 1,664,999,252
* Primary Government			

The County’s assets exceeded its liabilities at the close of FY02 by \$1,665 million. By far the largest portion of the County’s net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county’s Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County’s financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$774.8 million at June 30, 2002. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets \$460.5 million.

An additional portion of the County's net assets (\$408.3 million or 24%) represents resources that are subject to restrictions on how they may be used. This amount includes \$87.2 million in net assets restricted for revenue stabilization for periods of economic downturn.

### Statement of Activities

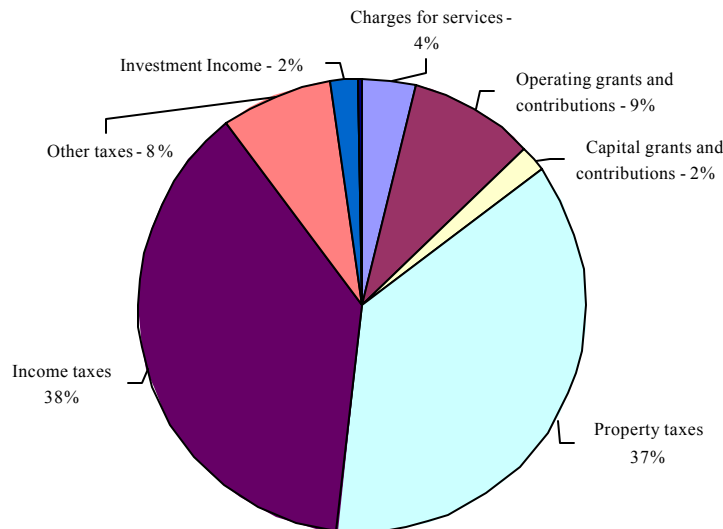
The following table summarizes the County's change in net assets for the year ended June 30, 2002:

<b>Summary of Changes in Net Assets *</b> <b>For the Fiscal Year Ended June 30, 2002</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>REVENUES</b>			
Program Revenues:			
Charges for services	\$ 84,952,926	\$ 277,711,514	\$ 362,664,440
Operating grants and contributions	201,490,713	65,680	201,556,393
Capital grants and contributions	48,019,121	-	48,019,121
General revenues:			
Property taxes	811,516,655	7,018,979	818,535,634
Income taxes	837,501,501	-	837,501,501
Other taxes	180,643,185	-	180,643,185
Investment Income	40,816,420	3,889,793	44,706,213
Gain (loss) on sale of capital assets	(4,471,925)	394,162	(4,077,763)
Total Revenues	<u>2,200,468,596</u>	<u>289,080,128</u>	<u>2,489,548,724</u>
<b>EXPENSES</b>			
Governmental Activities:			
General government	192,514,175	-	192,514,175
Public safety	309,564,731	-	309,564,731
Public works and transportation	151,932,007	-	151,932,007
Health and human services	197,263,408	-	197,263,408
Culture and recreation	78,147,724	-	78,147,724
Community development and housing	15,894,054	-	15,894,054
Environment	7,331,145	-	7,331,145
Education	1,219,512,074	-	1,219,512,074
Interest on long-term debt	65,756,461	-	65,756,461
Business-type Activities:			
Liquor control	-	128,793,258	128,793,258
Solid waste disposal and collection	-	89,048,708	89,048,708
Parking lot districts	-	18,488,414	18,488,414
Permitting services	-	17,041,912	17,041,912
Community use of public facilities	-	5,640,334	5,640,334
Total Expenses	<u>2,237,915,779</u>	<u>259,012,626</u>	<u>2,496,928,405</u>
Increase (Decrease) in Net Assets			
Before Special Item and Transfers	(37,447,183)	30,067,502	(7,379,681)
Special item- settlement of interfund balances	1,966,187	(1,966,187)	-
Transfers	36,515,563	(36,515,563)	-
Increase (Decrease) in Net Assets	1,034,567	(8,414,248)	(7,379,681)
Net Assets as of July 1, 2001	1,464,027,305	208,351,628	1,672,378,933
Net Assets as of June 30, 2002	<u>\$ 1,465,061,872</u>	<u>\$ 199,937,380</u>	<u>\$ 1,664,999,252</u>
* Primary Government			

### Governmental Activities

Revenues for the County's governmental activities were \$2,200.5 million for FY02. Sources of revenue are comprised of the following items:

#### **Revenues by Source - Governmental Activities For the Fiscal Year Ended June 30, 2002**



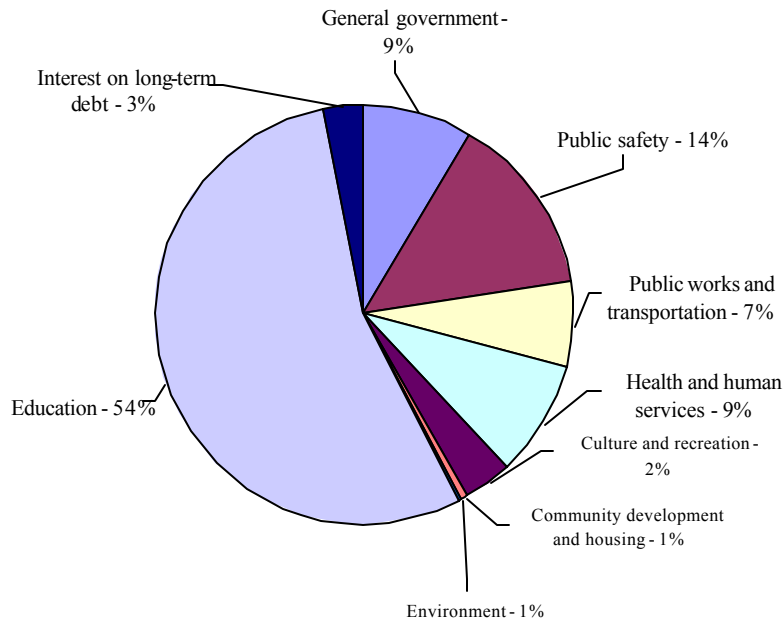
- Taxes constitute the largest source of County revenues, amounting to \$1,829.7 million for FY02. Property and local income tax combined comprise 75% of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 2.92 percent and 2.95 percent of the State taxable income for calendar year 2001 and 2002, respectively. This change was related to the phase-in of State tax relief related to exemptions, and was required in order for the income tax impact on the County to be revenue neutral. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$107.7 million or 53%), public works and transportation (\$53.6 million or 27%) and public safety (\$22.7 million or 11%).

A more detailed discussion of the County's revenue results for FY02 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY02 was \$2,237.9 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.2 billion. Public safety expenses totaled \$309.6 million, while health and human services, the third largest expense for the County, totaled \$197.3 million.



**Expenses by Function - Governmental Activities  
For the Fiscal Year Ended June 30, 2002**



The following table presents the cost and program revenues of each of the County's six largest programs – education, public safety, health and human services, general government, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

<b>Net Cost of County's Governmental Activities For the Fiscal Year Ended June 30, 2002</b>			
	<b>Expenses</b>	<b>Revenues</b>	<b>Net Cost of Services</b>
Education	\$ 1,219,512,074	\$ -	\$ 1,219,512,074
Public safety	309,564,731	46,804,524	262,760,207
Health and human services	197,263,408	111,130,897	86,132,511
General government	192,514,175	32,646,349	159,867,826
Public works and transportation	151,932,007	90,914,717	61,017,290
Culture and recreation	78,147,724	30,522,140	47,625,584
Other	88,981,660	22,444,133	66,537,527
<b>Total</b>	<b>\$ 2,237,915,779</b>	<b>\$ 334,462,760</b>	<b>\$ 1,903,453,019</b>

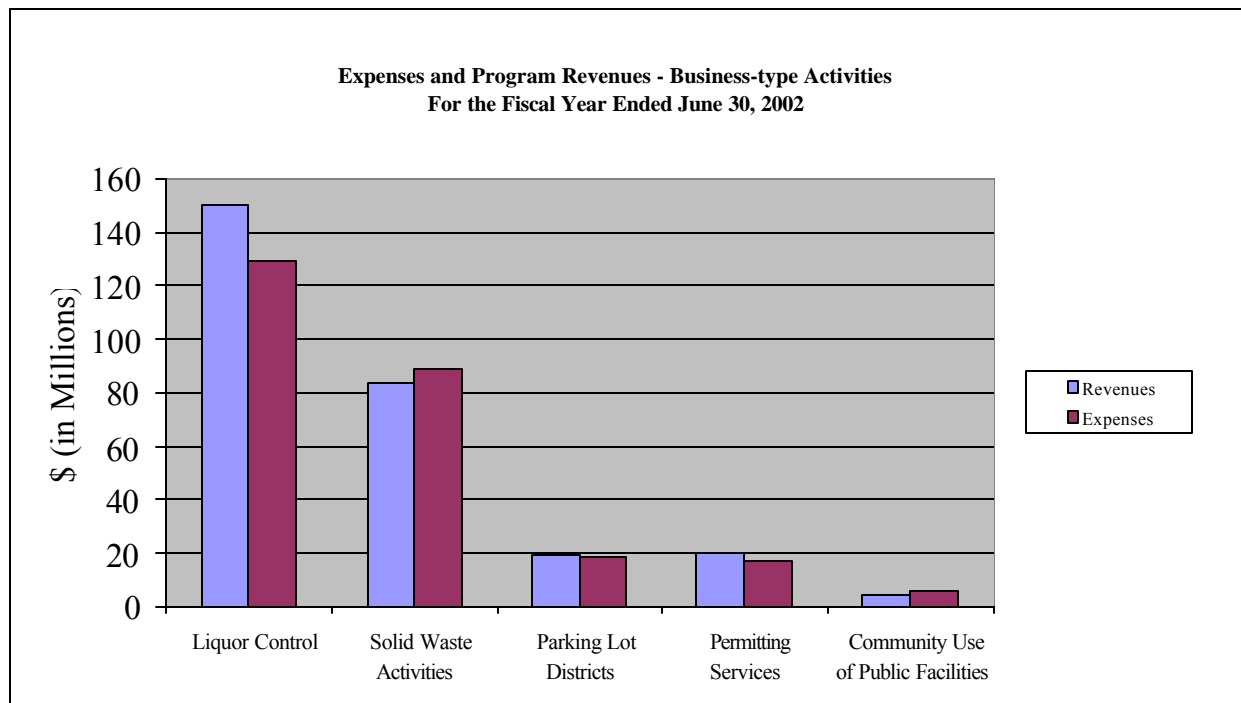
Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$85 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$249.5 million). Of the \$1,903.5 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was \$1,830 million.

### **Business-type Activities**

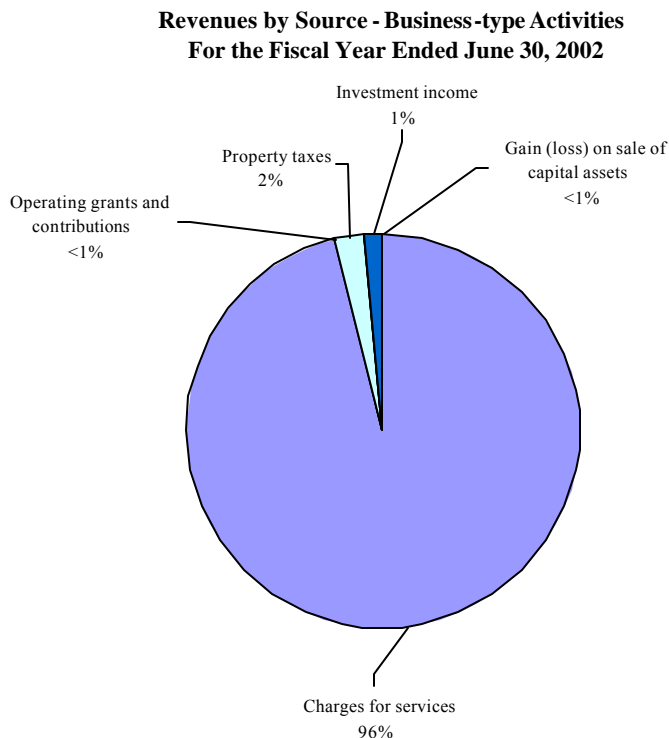
Highlights of the County's business-type activities for FY02 are as follows:

- Business-type activities experienced a loss of \$8.4 million for FY02. However, this amount is reported net after total transfers of \$36.5 million, \$22.3 million of which represents FY02 Liquor Enterprise Fund profits transferred to the General Fund. The Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.
- Charges for services to users comprise 96% of revenues, with \$150.1 million (54% of charges for services revenue) attributable to liquor control operations and \$83.5 million (30%) attributable to solid waste disposal and collection activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$7 million is the second largest source of revenue at only 2 percent.
- Investment earnings decreased by \$5.8 million (60%) because of the significant drop in interest rates during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY02, the County's governmental funds reported combined ending fund balances of \$518.8 million, an increase of \$7.6 million from the end of FY01. Of the total ending fund balances, \$192.5 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$326.3 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY02, unreserved and undesignated fund balance of the General Fund was \$72.9 million, while total fund balance was \$219.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 3.8 percent of the total General Fund expenditures and transfers out, while total fund balance represents 11.4 percent of the same amount.



The fund balance of the County's General Fund decreased by \$41.2 million during FY02, primarily due to:

- Use of beginning fund balance to fund the County's FY02 operating budget; and
- Supplemental and special appropriations approved by the County Council during the fiscal year for both operating and capital projects. Over half of these mid-year appropriation increases were for public safety operating and capital improvements, including the County's Emergency Preparedness Initiative in response to the September 11, 2001, terrorist attacks, as well as to support implementation of the County's new Public Safety Radio and Data System. The remainder related primarily to other public safety information technology improvements, and to provide for the timely opening of the County's new correctional facility in FY03.

The Capital Projects Fund has a total fund balance of \$101.3 million, which represents authorized and funded projects that are not completed. The unreserved deficit in this fund results primarily from fund balance encumbrances and legal restrictions on debt proceeds on hand.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain a fund balance.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

### **Proprietary funds**

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY02 amounted to \$17.4 million, and nonoperating income was \$21.5 million. After a subsidy transfer to the General Fund of \$22.3 million, the fund ended FY02 with a decrease in net assets of \$.8 million.

The Solid Waste Disposal and Collection Fund total net assets amounted to \$59.7 million, of which the unrestricted net assets were \$14.6 million. Restricted net assets of \$43 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to \$3.2 million in FY02, resulting in total ending net assets of \$108.2 million. Of this amount, \$68.8 million (63%) is invested in capital net of related debt; \$9.5 million (9%) is restricted for debt service on, and unspent bond proceeds relating to, revenue bonds; and \$29.9 million (28%) is unrestricted. During FY02, \$3.1 million due to the Silver Spring parking lot district from the General Fund was satisfied by a transfer of governmental capital assets with a net book value of \$1.1 million, and a fair value of approximately \$3.1 million, resulting in a \$2 million loss for accounting purposes in the Parking Lot Districts Fund. This same transaction resulted in a gain of \$3.1 million in the General Fund, since the payable was not settled with expendable available resources. However, at the government-wide level, governmental activities incorporate the book value of the capital assets transferred, resulting in a government-wide gain and loss between governmental and business-type activities that are equivalent.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-like activities.

## General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget to arrive at the final budget amounted to \$12.4 million, the majority of which related to County Council approved supplemental and special appropriations. Major components of the appropriation increases include the following:

- \$3.3 million increase in homeland security initiatives, strengthening emergency preparedness in various key agencies. Efforts included the addition of advanced communication equipment in police and other emergency vehicles (PS2000 Initiative), and a new Emergency Operations Center.
- \$3.9 million increase for the installation of a new Automated Call Distribution system, to enhance to management of E-911 calls.
- \$2.8 million increase in Health and Human Services initiatives, to include outpatient mental health clinics and disability and vocational services.
- \$1.7 million increase to the Department of Public Works and Transportation for the lease and buildout of the 255 Rockville Pike property.

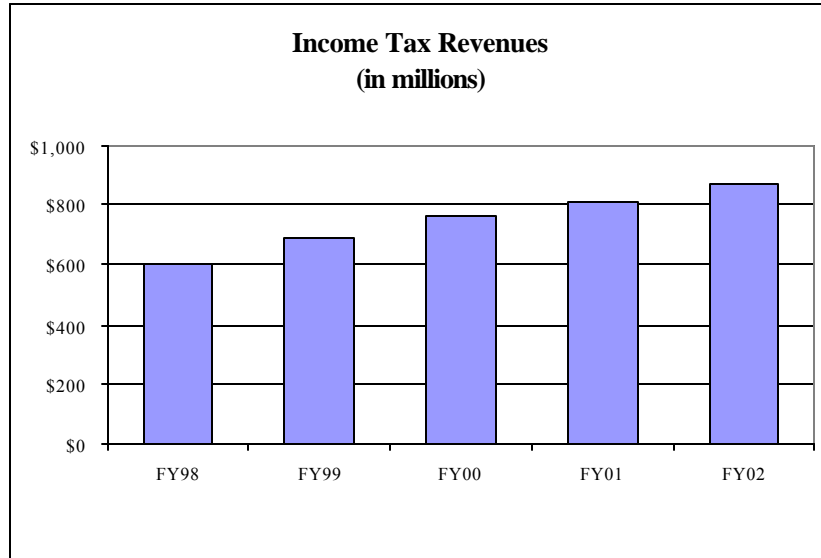
Actual revenues exceeded budget amounts by \$67.2 million, while actual expenditures and net transfers out were less than final budget by \$10.5 million and \$56.8 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2002, include the following:

- Actual expenditures of \$583 million were \$10.5 less than the final budget due primarily to a savings plan instituted in FY02 in anticipation of FY03 revenue shortfalls, in order to conserve resources so they would be carried forward to FY03.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$55.7 million. This is due both to the multi-year nature of capital projects, and to time delays encountered for certain projects.

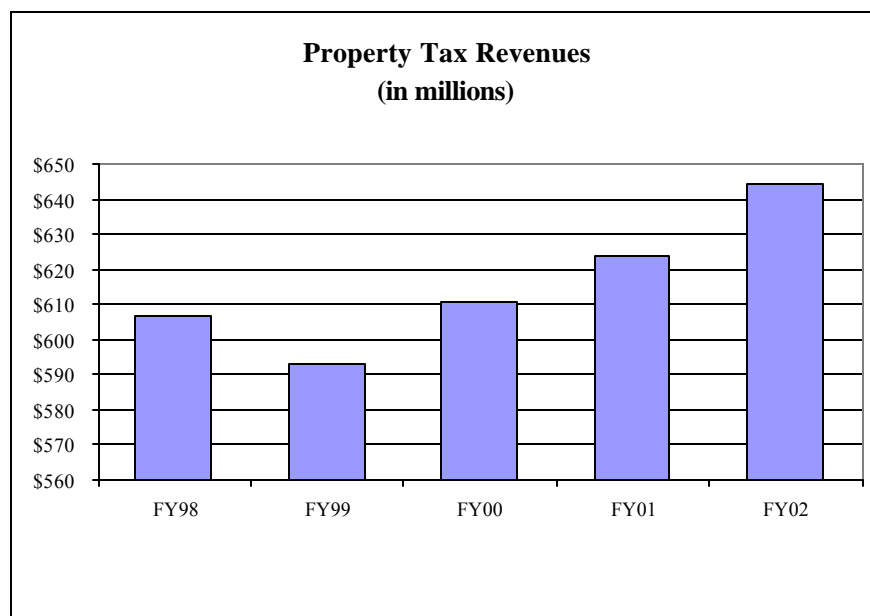
A more detailed comparison of final budget to actual figures for revenues is presented below:

- The largest revenue source for the General Fund is the County income tax. On an actual basis, income tax revenues at \$867.0 million represented 51.4 percent of total tax revenues for the General Fund and 47.1 percent of total revenues in FY02, and were 5.2 percent above the budget estimate. Therefore, income tax receipts have become the majority source of tax revenues in the General Fund and a significant source of total revenues, and have surpassed the property tax in size since FY98.

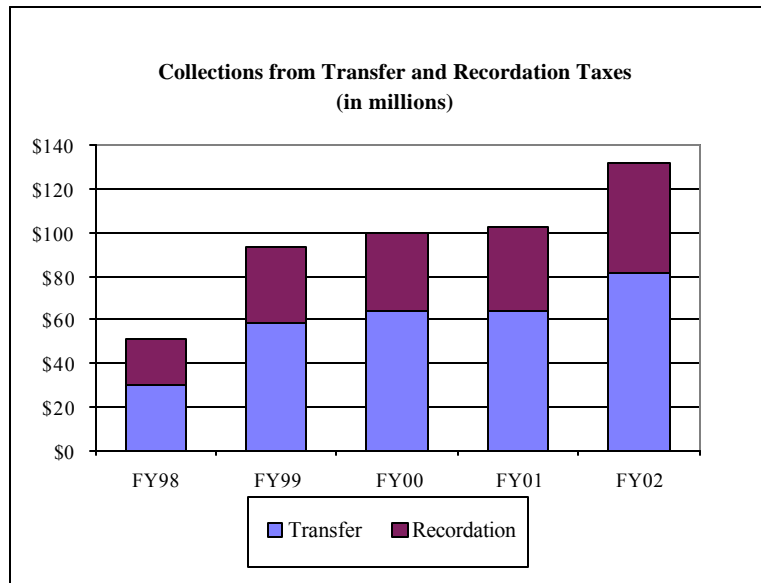
The shift in the reliance of the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains since FY98. Even with the significant drop in the growth of capital gains in FY02, revenues increased 6.7 percent in FY02 – the same rate as in FY01. There are a number of factors that offset the decline in capital gains. First, total wages increased 5.6 percent during calendar year 2001. Other factors that helped offset the decline in capital gains were additional filings and late filings, which increased \$40.7 million over FY01. Fiduciary returns, which increased \$1.8 million over FY01, penalties and interest, which increased \$1.0 million, the one-time tax amnesty program, which accounted for \$2.2 million in FY02 also contributed to the increase in FY02. However, while collections from prior years were strong, current year receipts coming in the midst of weak economic and financial market conditions reflect a sharp slowdown. While wages increased in calendar year 2001, weak employment conditions in the County contributed to the slowdown in the growth rate of returns from withholding and declarations. A decline of almost 3,500 jobs in the private sector was slightly offset by a gain in federal and local government employment of almost 2,000. Without the presence of the federal and local government employment and procurement spending by the federal government, the decline the number of jobs would have been greater than 1,000, or more than 0.2 percent.



- Property tax collections in the General Fund amounted to \$644.5 million in FY02 which were essentially on target with the budget estimate and 3.3 percent above actual revenues in FY01. Property taxes, excluding penalty and interest, were \$641.2 million in FY02 – an increase of 3.6 percent over last year. However, collections from penalty and interest were \$3.3 million, a decrease of 30.5 percent compared to FY01, but in line with the recent historical collection trend of approximately \$3.0 million annually. The decline in penalty and interest was offset by the stronger than projected growth in both the assessable base for real property – \$45.7 million – and for personal property – \$149.1 million. The number of new construction projects in the County for non-residential and residential properties was 4,802 in FY02, an increase of 247 projects from FY01. This is a continuation of a five-year construction cycle in the County that began in FY98. Since then, residential construction increased at an average annual rate of 16.4 percent from 2,289 projects to 4,413 projects in FY02. As a result of continued growth in both real and personal property, the total assessable base grew 4.5 percent in FY02.



- The third major category in the County is the combination of real property transfer taxes and recordation taxes. The combined tax receipts from these sources were \$132.1 million, 39.5 percent above the budget estimate and 29.0 percent above FY01. As the accompanying chart illustrates, the amount of collections from transfer and recordation taxes increased \$80.9 million since FY98 or one and one-half times.



Following a four-year period of decline in tax collections from transfer and recordation taxes beginning in FY95 reflecting a weak real estate market in the County, receipts jumped 81.7 percent in FY99 and jumped another 29.0 percent in FY02 following increases of 7.3 percent in FY00 and 2.6 percent in FY01. Collections from recordation taxes exhibited the larger increase in FY02, 37.5 percent, compared to transfer taxes which increased 25.1 percent. The larger increase is attributed to an unprecedented level of home mortgage refinancing which does not affect the transfer tax. Nevertheless, revenues from the transfer tax were also exceptionally strong in FY02 with total collections at \$80.9 million for an all time record high. The unexpected resurgence of real estate activity in FY02 was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY02.

- The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled \$43.7 million and were \$2.3 million below the budget estimate and \$3.1 million below actual FY01. The 9/11 terrorist attack and the subsequent anthrax attack on the Washington area had a significant effect on the hotel/motel industry in Montgomery County. Because of declines in occupancy rates and room rates during FY02, the hotel/motel industry suffered a decline of 14.7 percent in business revenues since 9/11. Such a decrease in business revenues affected hotel/motel tax collections with a \$2.1 million decrease or 15.8 percent reduction from actual FY01.
- Investment income fell \$8.7 million, or 51.4 percent, from \$17.0 million in FY01 to \$8.3 million in FY02. In the General Fund, investment income was 64.9 percent below the budget estimate and contributed to 22.7 percent of the total General Fund variability between budget and actual collections. The significant decline in investment income follows a decline in FY01 and is the result of an accommodative Federal Reserve policy during calendar year 2001. During that year, the Federal Reserve's open market operations cut the rate eleven times for a total of 475 basis points from 6.5 percent on January 2, 2001 to 1.75 percent by December 11, 2001. Because of this unprecedented series of rate cuts in federal funds, other short-term interest rates declined dramatically during FY02 hence the average yield on cash equity for the County decreased from 6.16 percent in FY01 to 2.61 percent in FY02. Total estimated pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$20.7 million or 58.2 percent below last fiscal year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital assets

The County's investment in capital assets as of June 30, 2002, amounted to \$2,305.7 million (net of accumulated depreciation and amortization), as summarized below:

<b>Capital Assets, Net of Depreciation June 30, 2002</b>				
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total FY02</b>	<b>Total FY01</b>
Land	\$ 433,202,160	\$ 52,833,367	\$ 486,035,527	\$ 465,844,546
Buildings	206,939,212	78,913,366	285,852,578	285,467,671
Improvements other than buildings	37,904,286	18,690,715	56,595,001	57,307,892
Furniture, fixtures, equipment and machinery	7,722,353	5,471,894	13,194,247	13,541,082
Automobiles and trucks	74,745,572	1,055,400	75,800,972	54,468,771
Infrastructure	966,616,472	-	966,616,472	904,758,195
Other assets	6,700,702	-	6,700,702	7,480,953
Construction in progress	406,654,144	8,232,399	414,886,543	347,174,981
Total	<u>\$ 2,140,484,901</u>	<u>\$ 165,197,141</u>	<u>\$ 2,305,682,042</u>	<u>\$ 2,136,044,091</u>

Changes in the County's capital assets for FY02 are summarized as follows:

<b>Change in Capital Assets For the Fiscal Year Ended June 30, 2002</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Beginning Balance	\$ 1,986,989,844	\$ 149,054,247	\$ 2,136,044,091
Additions*	216,572,354	26,243,104	242,815,458
Retirements, net*	8,240,015	166,473	8,406,488
Depreciation expense	<u>54,837,282</u>	<u>9,933,737</u>	<u>64,771,019</u>
Ending Balance	<u>\$ 2,140,484,901</u>	<u>\$ 165,197,141</u>	<u>\$ 2,305,682,042</u>

\* Presented net of transfers from construction in progress;  
retirements are also net of related accumulated depreciation.

Major capital asset events during FY02 included the following:

- The County invested an additional \$52.1 million towards the Public Safety 2000 effort for a complete mobile data system, which includes lap-top computers in public safety vehicles, an upgraded computer-aided dispatch system, and a new 800 MHz radio system.
- Roads, including underlying land, valued at \$24.5 million were dedicated to the County by developers.
- Construction continued on the new detention facility in Clarksburg with additional costs of \$16 million.
- In an effort to relieve congestion on existing roadways that provide east-west transportation within the County, additional costs of \$12.1 million were incurred toward the extension of Norbeck Road to a new connection with Spencerville Road at New Hampshire Avenue.



- As part of a multi-project effort by the County to support retail-oriented redevelopment of the Silver Spring Central Business District, the County invested \$10.5 million to stabilize and renovate the Silver Theatre.
- In the business-type activities, \$18.9 million was invested toward the construction of two garages in the Bethesda parking lot district.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements.

### Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2002:

<b>Long-Term Debt June 30, 2002</b>				
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total FY02</b>	<b>Total FY01</b>
General obligation bonds	\$ 1,241,920,821	\$ 632,233	\$ 1,242,553,054	\$ 1,178,708,054
Bond anticipation notes	125,000,000	-	125,000,000	125,000,000
Revenue bonds	-	86,835,000	86,835,000	65,505,000
Lease revenue bonds	37,880,000	-	37,880,000	-
Certificates of participation	43,530,000	-	43,530,000	54,660,000
Notes payable	1,408,951	800,000	2,208,951	2,457,165
Capital leases	19,940,589	-	19,940,589	21,267,866
Compensated absences	44,130,412	3,113,884	47,244,296	42,984,945
Claims and judgements	3,150,000	-	3,150,000	500,000
Landfill closure costs	-	24,687,900	24,687,900	24,532,359
<b>Total</b>	<b>\$ 1,516,960,773</b>	<b>\$116,069,017</b>	<b>\$ 1,633,029,790</b>	<b>\$ 1,515,615,389</b>

At June 30, 2002, the County had outstanding general obligation (GO) bonds of \$1,242.6 million and outstanding bond anticipation notes (BANs) of \$125 million. Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. BANs are typically issued twice a year and are refunded with the County's annual GO issue. Montgomery County also issues BANs and bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Over the last ten fiscal years, the County's annual issues averaged \$121.5 million. The County's significant debt activities during FY02 were:

- Under its 1995 Series BAN program, the County issued BANS in the amounts of \$75 million in October 2001, and \$85 million in April 2002. Proceeds are being used to fund the County's capital program. In July 2002, the County's 1995 Series BAN program expired and was replaced by the 2002 Series BAN program. The new program is initially authorized at the same level (\$200,000,000) as the 1995 Series.
- In November 2001, the County issued GO refunding bonds in the amount of \$146.4 million. Proceeds were used to refund \$143 million in GO bonds previously issued at higher interest rates.
- In February 2002, the County issued GO bonds in the amount of \$160 million. The proceeds of this bond issue were used to pay off an equal amount of the County's BANs.

- In May 2002, the County issued parking system refunding revenue bonds in the amount of \$26.7 million for the Bethesda and Silver Spring Parking Lot Districts. Proceeds were used to refund \$25.7 million in revenue bonds previously issued at higher interest rates.
- In June 2002, the County issued revenue bonds in the amount of \$26 million for the Bethesda Parking Lot District. Proceeds are being used to fund the design and construction of two parking facilities.
- Also in June, the County issued \$37.9 million in lease revenue bonds for construction of two metrorail garages, which have been leased to the Washington Metropolitan Area Transit Authority, a joint venture.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is rated Aaa by Moody's Investors Service, Inc., AAA by Standard and Poor's, and AAA by Fitch, Inc. The County has consistently had a Aaa rating from Moody's Investors Service, Inc. since April 1973. Since July 1976 and November 1993, the GO bonds issued by the County have consistently been rated AAA by Standard and Poor's and Fitch, Inc., respectively.

As of June 30, 2002, the County is one of only seven 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to Financial Statements, as well as Tables 1 – 3, 6, 7, and 13 – 17.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following economic factors are reflected in the County's FY03 budget:

- The County's economic projections in the FY03 Budget are based on a soft-landing scenario – i.e., slow economic growth in the initial years of the forecast followed by moderate growth.
- The economy in the County appears to have avoided a recession. This is partly due to a limited presence of manufacturing and high-technology industries, and an expanding Federal government both in terms of employment and procurement spending.
- The forecast assumes resident employment growth in the County ranging between 1.4 percent and 2.0 percent in the initial years of the six-year forecast period, declining to 1.2 percent by 2008 (2.0 percent in FY03).
- In contrast to the surge in energy costs that pushed inflation up 3.3 percent in 2000, subsequent easing in energy prices, combined with decelerating wage growth, and improved productivity, lowered inflation to 2.6 percent in 2001, while the outlook is for inflation to remain in a narrow range between 2.4 percent and 2.7 percent during the six-year forecast period (2.5 percent in FY03).

The Solid Waste Disposal and Collection Enterprise Fund is the only enterprise fund whose rates would be affected by the economy. Such rates had only minor changes in FY03, which were mainly due to minor fluctuations in activity and fund balance.

## **REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, <http://montgomerycountymd.gov> (see county services, finance, financial reports).

## **BASIC FINANCIAL STATEMENTS**

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2002  
**Exhibit A-1**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 520,419,674	\$ 94,205,932	\$ 614,625,606	\$ 50,746,766
Cash	187,665	33,575	221,240	7,744,429
Cash with fiscal agents	68,770,698	192,176	68,962,874	28,333,043
Investments-cash equivalents	-	-	-	70,199,532
Investments	7,030,362	-	7,030,362	9,026,637
Receivables (net of allowances for uncollectibles):				
Income taxes	252,930,579	-	252,930,579	-
Property taxes	37,449,221	1,280,039	38,729,260	-
Capital leases	37,880,000	-	37,880,000	19,940,589
Accounts	13,188,367	4,832,579	18,020,946	15,752,718
Special assessments	78,030	-	78,030	-
Notes	3,625,600	-	3,625,600	14,095
Parking violations	1,826,648	3,319,609	5,146,257	-
Mortgages	57,188,950	-	57,188,950	312,598,247
Interest	105,227	-	105,227	5,199,029
Other	73,849	-	73,849	5,611,172
Net internal balance	1,769,012	(1,769,012)	-	-
Due from primary government	-	-	-	43,989,797
Due from component units	63,734,270	348,502	64,082,772	-
Due from other governments	54,900,835	314,937	55,215,772	35,219,804
Inventory of supplies	5,389,945	25,122,213	30,512,158	9,663,900
Prepays	1,751,919	311,308	2,063,227	1,769,995
Deferred charges	1,168,208	1,723,115	2,891,323	276,990
Other assets	-	96,538	96,538	23,261,955
Restricted assets:				
Equity in pooled cash and investments	-	48,185,334	48,185,334	11,376,363
Cash	-	-	-	139,356
Cash with fiscal agents	-	-	-	8,072,429
Investments-cash equivalents	-	-	-	90,140,966
Investments	-	4,325,060	4,325,060	124,121,906
Capital assets:				
Nondepreciable assets	839,856,304	61,065,766	900,922,070	249,571,587
Depreciable assets, net	1,300,628,597	104,131,375	1,404,759,972	1,485,656,261
Total Assets	<u>\$ 3,269,953,960</u>	<u>\$ 347,719,046</u>	<u>\$ 3,617,673,006</u>	<u>\$ 2,608,427,566</u>

(Continued)



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS, CONCLUDED  
JUNE 30, 2002  
**Exhibit A-1**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Total
<b>LIABILITIES</b>				
Accounts payable	\$ 50,588,643	\$ 20,134,531	\$ 70,723,174	\$ 72,513,720
Interest payable	21,493,350	435,886	21,929,236	15,104,594
Retainage payable	10,922,936	1,739,152	12,662,088	8,815,740
Accrued liabilities	28,806,861	7,630,546	36,437,407	8,216,168
Claims payable	58,322,954	-	58,322,954	24,437,715
Deposits	182,299	55,889	238,188	4,609,715
Due to primary government	-	-	-	64,150,825
Due to component units	43,536,930	452,867	43,989,797	-
Due to other governments	12,430,082	1,560,226	13,990,308	-
Deferred revenue	60,971,780	496,796	61,468,576	21,648,942
Other liabilities	-	-	-	7,706,284
Noncurrent liabilities:				
Due within one year	280,801,189	11,632,264	292,433,453	61,603,258
Due in more than one year	1,236,835,064	103,643,509	1,340,478,573	842,316,984
Total Liabilities	<u>1,804,892,088</u>	<u>147,781,666</u>	<u>1,952,673,754</u>	<u>1,131,123,945</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,492,551,254	78,523,152	1,571,074,406	1,395,703,656
Restricted for:				
Capital projects	101,316,301	-	101,316,301	1,165,782
Nonexpendable permanent fund - housing	7,515,627	-	7,515,627	-
General government	99,786,314	-	99,786,314	-
Public safety	10,558,199	-	10,558,199	-
Public works and transportation	7,899,166	105,554,109	113,453,275	-
Recreation	18,241,320	-	18,241,320	-
Community development and housing	57,408,983	-	57,408,983	-
Debt service	-	-	-	57,452,562
Other purposes	-	-	-	6,353,589
Unrestricted (deficit)	<u>(330,215,292)</u>	<u>15,860,119</u>	<u>(314,355,173)</u>	<u>16,628,032</u>
Total net assets	<u>\$ 1,465,061,872</u>	<u>\$ 199,937,380</u>	<u>\$ 1,664,999,252</u>	<u>\$ 1,477,303,621</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-2**

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 192,514,175	\$ 25,301,053	\$ 6,993,136	\$ 352,160
Public safety	309,564,731	14,450,151	22,723,493	9,630,880
Public works and transportation	151,932,007	17,265,702	53,625,098	20,023,917
Health and human services	197,263,408	3,436,737	107,693,737	423
Culture and recreation	78,147,724	20,543,864	3,796,066	6,182,210
Community development and housing	15,894,054	2,215,655	6,659,183	8,896,301
Environment	7,331,145	1,739,764	-	2,933,230
Education	1,219,512,074	-	-	-
Interest on long-term debt	65,756,461	-	-	-
Total governmental activities	2,237,915,779	84,952,926	201,490,713	48,019,121
Business-type activities:				
Liquor control	128,793,258	150,062,034	-	-
Solid waste disposal and collection	89,048,708	83,462,862	-	-
Parking lot districts	18,488,414	19,338,522	-	-
Permitting services	17,041,912	20,347,649	-	-
Community use of public facilities	5,640,334	4,500,447	65,680	-
Total business-type activities	259,012,626	277,711,514	65,680	-
Total primary government	\$ 2,496,928,405	\$ 362,664,440	\$ 201,556,393	\$ 48,019,121
Component units:				
General government (BUPI)	\$ 2,411,444	\$ 2,391,911	\$ -	\$ -
Culture and recreation (MCRA)	11,900,551	10,669,101	-	1,557,739
Community development and housing (HOC)	147,671,468	93,389,820	52,549,161	3,883,008
Education:				
Elementary and secondary education ( MCPS)	1,484,892,917	29,089,775	105,657,897	41,190,416
Higher education (MCC)	158,623,824	49,446,459	13,264,733	1,610,511
Total component units	\$ 1,805,500,204	\$ 184,987,066	\$ 171,471,791	\$ 48,241,674
General revenues:				
Property taxes				
County income taxes				
Real property transfer taxes				
Recordation taxes				
Fuel energy taxes				
Hotel-motel taxes				
Telephone taxes				
Other taxes				
Grants and contributions not restricted to specific programs				
Investment income				
Gain (loss) on sale of capital assets				
Special item-gain (loss) on settlement of interfund balance				
Transfers				
Total general revenues, special item, and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (159,867,826)	\$ -	\$ (159,867,826)	\$ -
(262,760,207)	-	(262,760,207)	-
(61,017,290)	-	(61,017,290)	-
(86,132,511)	-	(86,132,511)	-
(47,625,584)	-	(47,625,584)	-
1,877,085	-	1,877,085	-
(2,658,151)	-	(2,658,151)	-
(1,219,512,074)	-	(1,219,512,074)	-
(65,756,461)	-	(65,756,461)	-
(1,903,453,019)	-	(1,903,453,019)	-
-	21,268,776	21,268,776	-
-	(5,585,846)	(5,585,846)	-
-	850,108	850,108	-
-	3,305,737	3,305,737	-
-	(1,074,207)	(1,074,207)	-
-	18,764,568	18,764,568	-
(1,903,453,019)	18,764,568	(1,884,688,451)	-
-	-	-	(19,533)
-	-	-	326,289
-	-	-	-
-	-	-	2,150,521
-	-	-	-
-	-	-	(1,308,954,829)
-	-	-	(94,302,121)
-	-	-	(1,400,799,673)
811,516,655	7,018,979	818,535,634	-
837,501,501	-	837,501,501	-
80,897,902	-	80,897,902	-
51,187,172	-	51,187,172	-
22,415,629	-	22,415,629	-
11,067,869	-	11,067,869	-
7,174,081	-	7,174,081	-
7,900,532	-	7,900,532	-
-	-	-	1,478,257,782
40,816,420	3,889,793	44,706,213	5,657,392
(4,471,925)	394,162	(4,077,763)	(233,817)
1,966,187	(1,966,187)	-	-
36,515,563	(36,515,563)	-	-
1,904,487,586	(27,178,816)	1,877,308,770	1,483,681,357
1,034,567	(8,414,248)	(7,379,681)	82,881,684
1,464,027,305	208,351,628	1,672,378,933	1,394,421,937
\$ 1,465,061,872	\$ 199,937,380	\$ 1,664,999,252	\$ 1,477,303,621

MONTGOMERY COUNTY, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2002  
**Exhibit A-3**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Equity in pooled cash and investments	\$ 198,945,937	\$ 3,849,715	\$ 95,277,717	\$ 148,889,897	\$ 446,963,266
Cash with fiscal agents	-	32,548,889	36,221,809	-	68,770,698
Cash	152,615	-	-	34,750	187,365
Investments	-	-	-	7,030,362	7,030,362
Receivables (net of allowances for uncollectibles):					
Income taxes	252,930,579	-	-	-	252,930,579
Capital leases	-	37,880,000	-	-	37,880,000
Property taxes	30,171,248	1,658	-	7,276,315	37,449,221
Accounts	9,709,289	8,118	786,857	2,472,510	12,976,774
Special assessments	-	78,030	-	-	78,030
Notes	-	-	-	3,541,950	3,541,950
Parking violations	1,826,648	-	-	-	1,826,648
Mortgages	219,134	-	-	56,969,816	57,188,950
Interest	-	-	-	105,227	105,227
Other	-	-	10,383	62,705	73,088
Due from other funds	77,036,750	-	-	2,078,380	79,115,130
Due from component units	6,765,146	-	33,668,614	22,599,039	63,032,799
Due from other governments	17,628,808	-	19,188,260	17,861,861	54,678,929
Inventory of supplies	2,717,239	-	1,084,792	-	3,802,031
Prepays	828,605	-	2,689	559,479	1,390,773
Total Assets	<u>\$ 598,931,998</u>	<u>\$ 74,366,410</u>	<u>\$ 186,241,121</u>	<u>\$ 269,482,291</u>	<u>\$ 1,129,021,820</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 14,591,672	\$ 114,505	\$ 18,626,965	\$ 11,610,223	\$ 44,943,365
Retainage payable	23,353	-	10,899,583	-	10,922,936
Accrued liabilities	18,903,494	-	365,887	4,785,532	24,054,913
Deposits	-	-	-	182,299	182,299
Due to other funds	3,810,973	32,548,889	42,196,790	5,725,485	84,282,137
Due to component units	38,254,486	-	2,519,885	2,706,636	43,481,007
Due to other governments	3,019,421	-	2,110,940	7,124,508	12,254,869
Deferred revenue	301,070,475	41,703,016	8,204,770	39,076,261	390,054,522
Total Liabilities	<u>379,673,874</u>	<u>74,366,410</u>	<u>84,924,820</u>	<u>71,210,944</u>	<u>610,176,048</u>
Fund balances:					
Reserved for:					
Encumbrances	25,357,855	-	168,492,682	6,809,625	200,660,162
Legal debt restrictions	-	-	45,369,337	-	45,369,337
Long-term receivables	-	-	12,529,567	52,252,673	64,782,240
Inventory and prepaids	3,545,844	-	1,087,481	559,150	5,192,475
Fire-Rescue Grant	-	-	-	1,549,257	1,549,257
Donor-specified purposes	-	-	-	973,523	973,523
Other purposes	298,009	-	-	7,515,627	7,813,636
Total Reserved	<u>29,201,708</u>	<u>-</u>	<u>227,479,067</u>	<u>69,659,855</u>	<u>326,340,630</u>
Unreserved:					
Designated for subsequent years' expenditures	61,325,631	-	-	22,219,425	83,545,056
Designated for transfers to Capital Projects Fund	55,822,587	-	-	9,713,407	65,535,994
Undesignated (deficit), reported in:					
General Fund	72,908,198	-	-	-	72,908,198
Capital Projects Fund	-	-	(126,162,766)	-	(126,162,766)
Special Revenue Funds	-	-	-	96,678,660	96,678,660
Total Unreserved	<u>190,056,416</u>	<u>-</u>	<u>(126,162,766)</u>	<u>128,611,492</u>	<u>192,505,142</u>
Total Fund Balances	<u>219,258,124</u>	<u>-</u>	<u>101,316,301</u>	<u>198,271,347</u>	<u>518,845,772</u>
Total Liabilities and Fund Balances	<u>\$ 598,931,998</u>	<u>\$ 74,366,410</u>	<u>\$ 186,241,121</u>	<u>\$ 269,482,291</u>	<u>\$ 1,129,021,820</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2002  
**Exhibit A-4**

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Total fund balance - governmental funds		\$ 518,845,772
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental fund activities are not financial resources  
and therefore not reported in the funds:

Nondepreciable capital assets:

Land	\$ 433,179,655
Construction in progress	406,654,144

Depreciable capital assets:

Buildings	369,851,731
Improvements other than buildings	57,137,180
Furniture, fixtures, equipment and machinery	22,218,821
Automobiles and trucks	83,509,832
Infrastructure	1,228,191,707
Other capital assets	8,747,651

Total capital assets:	2,609,490,721	
Less accumulated depreciation	(491,803,608)	2,117,687,113

Long-term liabilities related to governmental fund activities are not due and  
payable in the current period and therefore not reported in the funds:

General obligation bonds payable	(1,241,920,821)	
Bond anticipation notes payable	(125,000,000)	
Lease revenue bonds payable	(37,880,000)	
Certificates of participation	(43,530,000)	
Accrued interest payable	(21,493,350)	
Capital leases payable	(19,940,589)	
Notes payable	(1,408,951)	
Compensated absences	(43,083,172)	
Claims and judgments	(3,150,000)	(1,537,406,883)

Costs incurred from the issuance of long-term debt are recognized as  
expenditures in the fund statements, but are deferred in the government-wide  
statements:

Unamortized premiums	(11,620,152)	
Deferred amount on refunding	10,944,672	
Deferred issuance costs	1,168,208	492,728

Internal service funds are used by management to provide certain goods and  
services to governmental funds. The assets and liabilities of internal service  
funds are included in the government-wide statement of net assets:

Assets:

Current assets	78,913,026
Capital assets	62,864,833
Less accumulated depreciation	(40,067,045)
Liabilities	(67,053,916)

Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,621,685	36,278,583
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Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds:

Income taxes	258,655,581	
Property taxes	36,560,127	
Intergovernmental revenue	12,425,252	
Other revenue	21,523,599	329,164,559

Net assets of governmental activities		<u>\$ 1,465,061,872</u>
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Notes to Financial Statements are an integral part of this statement.



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-5**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 1,687,308,851	\$ -	\$ 1,993,626	\$ 162,828,862	\$ 1,852,131,339
Licenses and permits	7,792,578	-	-	1,129,505	8,922,083
Intergovernmental	115,791,737	-	46,952,930	111,261,650	274,006,317
Charges for services	8,408,963	14,683	3,566,643	29,527,316	41,517,605
Fines and forfeitures	7,164,425	-	-	1,152,978	8,317,403
Investment income	6,205,991	2,883,033	646,635	4,978,316	14,713,975
Miscellaneous	6,945,248	-	11,340,289	1,639,810	19,925,347
Total Revenues	<u>1,839,617,793</u>	<u>2,897,716</u>	<u>64,500,123</u>	<u>312,518,437</u>	<u>2,219,534,069</u>
<b>EXPENDITURES</b>					
Current:					
General government	150,634,207	-	-	8,731,295	159,365,502
Public safety	190,096,858	-	-	110,986,900	301,083,758
Public works and transportation	31,956,745	-	-	77,620,926	109,577,671
Health and human services	146,910,024	-	-	48,393,506	195,303,530
Culture and recreation	37,704,312	-	-	29,312,202	67,016,514
Community development and housing	7,703,195	-	-	6,831,282	14,534,477
Environment	3,763,873	-	-	439,832	4,203,705
Education	1,112,954,934	-	-	-	1,112,954,934
Debt Service:					
Principal retirement:					
General obligation bonds	-	99,090,151	-	-	99,090,151
Bond anticipation notes	-	160,000,000	-	-	160,000,000
Other notes	-	98,214	-	-	98,214
Interest:					
General obligation bonds	-	58,295,519	-	-	58,295,519
Bond anticipation notes	-	3,159,208	-	-	3,159,208
Other notes	-	45,586	-	-	45,586
Leases and other obligations	-	16,162,918	-	-	16,162,918
Issuing costs	-	1,690,524	-	-	1,690,524
Capital Projects	-	-	314,157,053	-	314,157,053
Total Expenditures	<u>1,681,724,148</u>	<u>338,542,120</u>	<u>314,157,053</u>	<u>282,315,943</u>	<u>2,616,739,264</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>157,893,645</u>	<u>(335,644,404)</u>	<u>(249,656,930)</u>	<u>30,202,494</u>	<u>(397,205,195)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	45,238,660	172,970,954	67,529,531	32,880,217	318,619,362
Transfers (out)	(247,422,190)	(2,183,977)	(846,608)	(31,649,515)	(282,102,290)
Sale of property	-	-	1,856,955	624,621	2,481,576
Payment to refunded bond escrow agent	-	(154,734,082)	-	-	(154,734,082)
Debt Issued:					
General obligation bonds	-	162,756,250	-	-	162,756,250
Bond anticipation notes	-	-	160,000,000	-	160,000,000
Certificates of participation	-	1,079,058	-	-	1,079,058
Lease revenue bonds	-	221,392	37,817,252	-	38,038,644
General obligation refunding bonds	-	155,534,809	-	-	155,534,809
Total Other Financing Sources (Uses)	<u>(202,183,530)</u>	<u>335,644,404</u>	<u>266,357,130</u>	<u>1,855,323</u>	<u>401,673,327</u>
<b>SPECIAL ITEM</b>					
Gain on extinguishment of liability	<u>3,106,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,106,570</u>
Net Change in Fund Balances	(41,183,315)	-	16,700,200	32,057,817	7,574,702
Fund Balances - Beginning of Year, as restated	260,441,439	-	84,616,101	166,213,530	511,271,070
Fund Balances - End of Year	<u>\$ 219,258,124</u>	<u>\$ -</u>	<u>\$ 101,316,301</u>	<u>\$ 198,271,347</u>	<u>\$ 518,845,772</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-6**

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Net change in fund balances - total governmental funds		\$ 7,574,702
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	\$ 189,986,844	
Depreciation expense	<u>(49,829,246)</u>	140,157,598

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.		(8,093,884)
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Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.		24,506,590
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Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:

Income taxes	(29,494,768)	
Property taxes	7,008,075	
Intergovernmental revenues	(35,481,740)	
Other revenues	<u>3,186,264</u>	(54,782,169)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Debt issued or incurred:		
General obligation bonds	(162,756,250)	
General obligation refunding bonds	(155,534,809)	
Bond anticipation notes	(160,000,000)	
Lease revenue bonds	(38,038,644)	
Certificates of participation	(1,079,058)	
Less issuance costs	1,199,164	
Principal repayments:		
General obligation bonds	99,090,151	
Bond anticipation notes	160,000,000	
Certificates of participation	11,130,000	
Capital leases	1,327,277	
Notes payable	248,214	
Payment to escrow agent for refunding	<u>154,734,082</u>	(89,679,873)

Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest payable	(504,387)	
Compensated absences	(4,002,200)	
Claims and judgments	(2,650,000)	
Amortization of issuance costs	<u>(82,625)</u>	(7,239,212)

The current year loss for certain activities of internal service funds is reported with governmental activities.		<u>(11,409,185)</u>
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Change in net assets of governmental activities		<u>\$ 1,034,567</u>
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Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-7**

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Revenues:							
Taxes:							
Property	\$ -	\$ 641,391,200	\$ 641,391,200	\$ -	\$ 641,391,200	\$ 641,219,548	\$ (171,652)
Property - penalty and interest	-	2,124,540	2,124,540	-	2,124,540	3,295,829	1,171,289
Other	-	-	-	-	-	7,655	7,655
Total Property Tax	-	643,515,740	643,515,740	-	643,515,740	644,523,032	1,007,292
County income tax	-	823,950,000	823,950,000	-	823,950,000	866,996,269	43,046,269
Other Local Taxes:							
Real property transfer	-	60,030,000	60,030,000	-	60,030,000	80,897,902	20,867,902
Recordation	-	34,650,000	34,650,000	-	34,650,000	51,187,172	16,537,172
Fuel energy	-	22,750,000	22,750,000	-	22,750,000	22,415,629	(334,371)
Hotel - motel	-	12,050,000	12,050,000	-	12,050,000	11,067,869	(982,131)
Telephone	-	7,960,000	7,960,000	-	7,960,000	7,174,081	(785,919)
Other	-	3,260,000	3,260,000	-	3,260,000	3,046,897	(213,103)
Total Other Local Taxes	-	140,700,000	140,700,000	-	140,700,000	175,789,550	35,089,550
Total Taxes	-	1,608,165,740	1,608,165,740	-	1,608,165,740	1,687,308,851	79,143,111
Licenses and Permits:							
Business	-	4,049,730	4,049,730	-	4,049,730	4,178,713	128,983
Non business	-	914,870	914,870	-	914,870	678,994	(235,876)
Total Licenses and Permits	-	4,964,600	4,964,600	-	4,964,600	4,857,707	(106,893)
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	39,784,450	39,784,450	1,094,650	40,879,100	37,573,820	(3,305,280)
Highway user revenue	-	31,480,000	31,480,000	-	31,480,000	32,011,184	531,184
Police protection	-	12,572,500	12,572,500	-	12,572,500	12,451,193	(121,307)
Health and human services programs	-	5,401,800	5,401,800	-	5,401,800	5,931,798	529,998
Public libraries	-	3,326,000	3,326,000	-	3,326,000	3,724,939	398,939
911 Emergency	-	3,610,000	3,610,000	-	3,610,000	3,579,037	(30,963)
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	1,416,000	1,416,000	-	1,416,000	2,981,331	1,565,331
Total State Aid and Reimbursements	-	100,356,750	100,356,750	1,094,650	101,451,400	101,018,855	(432,545)
Federal Reimbursements:							
Federal financial participation	-	7,610,610	7,610,610	-	7,610,610	8,659,290	1,048,680
Other	-	1,301,850	1,301,850	-	1,301,850	2,249,425	947,575
Total Federal Reimbursements	-	8,912,460	8,912,460	-	8,912,460	10,908,715	1,996,255
Other Intergovernmental	-	865,000	865,000	-	865,000	3,864,167	2,999,167
Total Intergovernmental Revenue	-	110,134,210	110,134,210	1,094,650	111,228,860	115,791,737	4,562,867
Charges for Services:							
General government	-	1,508,800	1,508,800	-	1,508,800	1,614,061	105,261
Public safety	-	5,780,555	5,780,555	-	5,780,555	4,138,579	(1,641,976)
Health and human services	-	1,153,240	1,153,240	-	1,153,240	1,162,352	9,112
Culture and recreation	-	119,500	119,500	-	119,500	56,929	(62,571)
Environment	-	100,000	100,000	-	100,000	115,710	15,710
Public works and transportation	-	145,000	145,000	-	145,000	175,096	30,096
Total Charges for Services	-	8,807,095	8,807,095	-	8,807,095	7,262,727	(1,544,368)
Fines and Forfeitures	-	8,914,180	8,914,180	-	8,914,180	7,143,920	(1,770,260)
Investment Income:							
Pooled investment income	-	23,491,000	23,491,000	-	23,491,000	8,219,892	(15,271,108)
Other interest income	-	90,000	90,000	-	90,000	50,463	(39,537)
Total Investment Income	-	23,581,000	23,581,000	-	23,581,000	8,270,355	(15,310,645)
Miscellaneous Revenue:							
Property rentals	-	4,444,000	4,444,000	-	4,444,000	4,430,871	(13,129)
Sundry	-	3,803,110	3,803,110	132,319	3,935,429	6,167,619	2,232,190
Total Miscellaneous Revenues	-	8,247,110	8,247,110	132,319	8,379,429	10,598,490	2,219,061
Total Revenues	-	1,772,813,935	1,772,813,935	1,226,969	1,774,040,904	1,841,233,787	67,192,883

(Continued)

## MONTGOMERY COUNTY, MARYLAND

## GENERAL FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

## Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Expenditures:							
Departments or Offices:							
County Council:							
Personnel costs	\$ -	\$ 5,674,170	\$ 5,674,170	\$ 24,220	\$ 5,698,390	\$ 5,623,803	\$ 74,587
Operating	23,730	699,300	723,030	(2,666)	720,364	556,672	163,692
Totals	23,730	6,373,470	6,397,200	21,554	6,418,754	6,180,475	238,279
Board of Appeals:							
Personnel costs	-	384,460	384,460	800	385,260	385,247	13
Operating	8,589	52,700	61,289	8,701	69,990	69,987	3
Totals	8,589	437,160	445,749	9,501	455,250	455,234	16
Legislative Oversight:							
Personnel costs	-	594,620	594,620	3,260	597,880	558,841	39,039
Operating	25,277	51,510	76,787	(18,513)	58,274	29,649	28,625
Totals	25,277	646,130	671,407	(15,253)	656,154	588,490	67,664
Merit System Protection Board:							
Personnel costs	-	93,440	93,440	-	93,440	93,234	206
Operating	-	14,310	14,310	-	14,310	7,643	6,667
Totals	-	107,750	107,750	-	107,750	100,877	6,873
Zoning and Administrative Hearings:							
Personnel costs	-	157,840	157,840	(2,250)	155,590	155,509	81
Operating	12,000	74,370	86,370	36,350	122,720	108,945	13,775
Totals	12,000	232,210	244,210	34,100	278,310	264,454	13,856
Inspector General:							
Personnel costs	-	375,700	375,700	4,330	380,030	367,654	12,376
Operating	5,878	121,790	127,668	(2,840)	124,828	66,065	58,763
Totals	5,878	497,490	503,368	1,490	504,858	433,719	71,139
People's Counsel:							
Personnel costs	-	170,300	170,300	1,300	171,600	171,531	69
Operating	1,968	30,230	32,198	(1,665)	30,533	10,803	19,730
Totals	1,968	200,530	202,498	(365)	202,133	182,334	19,799
Circuit Court:							
Personnel costs	-	6,121,040	6,121,040	(150,310)	5,970,730	5,659,152	311,578
Operating	530,773	1,386,740	1,917,513	592,565	2,510,078	2,507,466	2,612
Totals	530,773	7,507,780	8,038,553	442,255	8,480,808	8,166,618	314,190
State's Attorney:							
Personnel costs	-	7,215,310	7,215,310	406,100	7,621,410	7,612,853	8,557
Operating	2,163	539,310	541,473	(50,459)	491,014	475,738	15,276
Totals	2,163	7,754,620	7,756,783	355,641	8,112,424	8,088,591	23,833
County Executive:							
Personnel costs	-	3,734,840	3,734,840	(35,482)	3,699,358	3,435,561	263,797
Operating	42,590	271,190	313,780	116,800	430,580	430,578	2
Totals	42,590	4,006,030	4,048,620	81,318	4,129,938	3,866,139	263,799
Commission for Women:							
Personnel costs	-	666,570	666,570	5,140	671,710	668,337	3,373
Operating	4,213	168,430	172,643	(2,094)	170,549	130,230	40,319
Totals	4,213	835,000	839,213	3,046	842,259	798,567	43,692
Regional Service Centers:							
Personnel costs	-	2,197,320	2,197,320	37,710	2,235,030	2,224,552	10,478
Operating	166,212	510,240	676,452	(31,330)	645,122	500,302	144,820
Totals	166,212	2,707,560	2,873,772	6,380	2,880,152	2,724,854	155,298
Ethics Commission:							
Personnel costs	-	145,740	145,740	-	145,740	135,428	10,312
Operating	-	41,680	41,680	-	41,680	24,666	17,014
Totals	-	187,420	187,420	-	187,420	160,094	27,326
Intergovernmental Relations:							
Personnel costs	-	398,750	398,750	45,700	444,450	444,254	196
Operating	10,263	157,030	167,293	(15,986)	151,307	108,438	42,869
Totals	10,263	555,780	566,043	29,714	595,757	552,692	43,065
Board of Liquor License Commissioners:							
Personnel costs	-	654,760	654,760	(1,990)	652,770	632,859	19,911
Operating	724	104,030	104,754	5,776	110,530	110,309	221
Totals	724	758,790	759,514	3,786	763,300	743,168	20,132

(Continued)

MONTGOMERY COUNTY, MARYLAND  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Public Information:							
Personnel costs	\$ -	\$ 927,660	\$ 927,660	\$ (28,000)	\$ 899,660	\$ 899,378	\$ 282
Operating	30,977	155,290	186,267	84,191	270,458	269,931	527
Totals	30,977	1,082,950	1,113,927	56,191	1,170,118	1,169,309	809
Board of Elections:							
Personnel costs	-	1,364,160	1,364,160	(18,000)	1,346,160	1,345,970	190
Operating	10,394	302,030	312,424	74,582	387,006	386,996	10
Totals	10,394	1,666,190	1,676,584	56,582	1,733,166	1,732,966	200
County Attorney:							
Personnel costs	-	3,684,230	3,684,230	160,520	3,844,750	3,780,582	64,168
Operating	122,170	489,960	612,130	(48,066)	564,064	563,950	114
Totals	122,170	4,174,190	4,296,360	112,454	4,408,814	4,344,532	64,282
Management and Budget:							
Personnel costs	-	2,987,650	2,987,650	24,230	3,011,880	2,988,274	23,606
Operating	100,030	195,500	295,530	(42,992)	252,538	165,915	86,623
Totals	100,030	3,183,150	3,283,180	(18,762)	3,264,418	3,154,189	110,229
Finance:							
Personnel costs	-	6,493,010	6,493,010	25,800	6,518,810	6,381,867	136,943
Operating	487,285	1,504,390	1,991,675	(13,383)	1,978,292	1,829,316	148,976
Totals	487,285	7,997,400	8,484,685	12,417	8,497,102	8,211,183	285,919
Human Resources:							
Personnel costs	-	3,833,050	3,833,050	11,910	3,844,960	3,793,508	51,452
Operating	149,405	2,372,600	2,522,005	(43,026)	2,478,979	2,213,615	265,364
Capital outlay	-	-	-	18,141	18,141	18,141	-
Totals	149,405	6,205,650	6,355,055	(12,975)	6,342,080	6,025,264	316,816
Technology Services:							
Personnel costs	-	11,086,250	11,086,250	(389,660)	10,696,590	9,976,943	719,647
Operating	1,724,865	9,016,200	10,741,065	4,328,142	15,069,207	13,900,936	1,168,271
Capital outlay	20,041	80,300	100,341	247,528	347,869	341,169	6,700
Totals	1,744,906	20,182,750	21,927,656	4,186,010	26,113,666	24,219,048	1,894,618
Procurement:							
Personnel costs	-	1,889,270	1,889,270	23,740	1,913,010	1,912,952	58
Operating	38,488	288,120	326,608	(37,562)	289,046	258,681	30,365
Totals	38,488	2,177,390	2,215,878	(13,822)	2,202,056	2,171,633	30,423
Corrections and Rehabilitation:							
Personnel costs	-	31,048,990	31,048,990	(1,899,160)	29,149,830	29,104,069	45,761
Operating	120,813	6,891,310	7,012,123	933,567	7,945,690	7,939,662	6,028
Totals	120,813	37,940,300	38,061,113	(965,593)	37,095,520	37,043,731	51,789
Human Relations Commission:							
Personnel costs	-	1,466,030	1,466,030	5,140	1,471,170	1,443,947	27,223
Operating	4,363	142,030	146,393	(421)	145,972	86,840	59,132
Totals	4,363	1,608,060	1,612,423	4,719	1,617,142	1,530,787	86,355
Police:							
Personnel costs	-	111,130,360	111,130,360	3,139,030	114,269,390	114,269,235	155
Operating	1,244,637	19,235,360	20,479,997	(396,380)	20,083,617	20,083,616	1
Totals	1,244,637	130,365,720	131,610,357	2,742,650	134,353,007	134,352,851	156
Sheriff:							
Personnel costs	-	9,418,710	9,418,710	(57,792)	9,360,918	9,246,940	113,978
Operating	172,527	1,263,190	1,435,717	52,305	1,488,022	1,464,233	23,789
Totals	172,527	10,681,900	10,854,427	(5,487)	10,848,940	10,711,173	137,767
Public Works and Transportation:							
Personnel costs	-	27,326,120	27,326,120	134,270	27,460,390	26,294,329	1,166,061
Operating	6,953,058	26,188,720	33,141,778	3,786,204	36,927,982	36,598,092	329,890
Capital outlay	91,394	-	91,394	5,708	97,102	97,102	-
Totals	7,044,452	53,514,840	60,559,292	3,926,182	64,485,474	62,989,523	1,495,951
Health and Human Services:							
Personnel costs	-	77,195,920	77,195,920	1,642,320	78,838,240	78,833,077	5,163
Operating	5,119,621	62,104,280	67,223,901	(458,543)	66,765,358	66,044,396	720,962
Totals	5,119,621	139,300,200	144,419,821	1,183,777	145,603,598	144,877,473	726,125
Libraries:							
Personnel costs	-	22,107,360	22,107,360	22,210	22,129,570	22,128,683	887
Operating	2,887,131	8,165,230	11,052,361	(166,240)	10,886,121	9,629,826	1,256,295
Totals	2,887,131	30,272,590	33,159,721	(144,030)	33,015,691	31,758,509	1,257,182
Housing and Community Affairs:							
Personnel costs	-	2,797,520	2,797,520	6,340	2,803,860	2,661,229	142,631
Operating	649,195	350,820	1,000,015	(8,175)	991,840	970,826	21,014
Totals	649,195	3,148,340	3,797,535	(1,835)	3,795,700	3,632,055	163,645

(Continued)



MONTGOMERY COUNTY, MARYLAND  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-7**

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Economic Development:							
Personnel costs	\$ -	\$ 2,296,460	\$ 2,296,460	\$ 156,840	\$ 2,453,300	\$ 2,424,555	\$ 28,745
Operating	691,018	3,184,870	3,875,888	(158,159)	3,717,729	3,559,283	158,446
Totals	691,018	5,481,330	6,172,348	(1,319)	6,171,029	5,983,838	187,191
Environmental Protection:							
Personnel costs	-	2,701,720	2,701,720	4,410	2,706,130	2,613,910	92,220
Operating	773,596	1,107,420	1,881,016	(21,116)	1,859,900	1,809,745	50,155
Capital outlay	-	-	-	7,400	7,400	7,368	32
Totals	773,596	3,809,140	4,582,736	(9,306)	4,573,430	4,431,023	142,407
Total Departments	22,225,388	495,599,810	517,825,198	12,081,020	529,906,218	521,645,393	8,260,825
Nondepartmental:							
State retirement contribution - operating	-	665,520	665,520	-	665,520	665,515	5
Retirees group insurance - operating	-	13,481,000	13,481,000	-	13,481,000	13,481,000	-
State positions supplement - personnel	-	218,920	218,920	-	218,920	214,259	4,661
Judges special pension contribution - personnel	-	38,860	38,860	-	38,860	36,066	2,794
Compensation adjustment - personnel	-	677,210	677,210	(477,040)	200,170	32,050	168,120
Compensation adjustment - operating	-	89,660	89,660	-	89,660	60,823	28,837
Municipal tax duplication - operating	-	4,483,060	4,483,060	-	4,483,060	4,483,060	-
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	388,860	388,860	11,300	400,160	400,128	32
Rebate - Takoma Park library - operating	-	86,140	86,140	-	86,140	81,812	4,328
Homeowners' association roadways - operating	-	304,210	304,210	-	304,210	304,210	-
Contribution to risk management - operating	-	4,466,840	4,466,840	-	4,466,840	4,122,346	344,494
Support for the arts - operating	3,450,522	2,836,900	6,287,422	(5)	6,287,417	6,286,353	1,064
Historical activities - operating	-	333,820	333,820	-	333,820	333,820	-
Conference and Visitors Bureau - operating	49,302	421,750	471,052	118,370	589,422	589,422	-
Arts Council - operating	26,029	1,180,920	1,206,949	(4)	1,206,945	1,194,007	12,938
Community grants - operating	57,124	4,605,490	4,662,614	(180,624)	4,481,990	4,477,571	4,419
Youth development programs - operating	-	45,000	45,000	-	45,000	40,054	4,946
County associations - operating	-	53,210	53,210	-	53,210	51,823	1,387
Metropolitan Washington C O G - operating	-	591,710	591,710	1,800	593,510	593,421	89
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	27,500	-
Independent audit - operating	6,260	250,000	256,260	66,740	323,000	323,000	-
Prisoner medical services - operating	-	27,130	27,130	-	27,130	5,616	21,514
Boards, committees and commissions - operating	-	5,000	5,000	-	5,000	4,426	574
Charter Review Commission - operating	-	1,500	1,500	500	2,000	1,984	16
Closing costs assistance - operating	-	230,020	230,020	-	230,020	218,520	11,500
Telecommunications master planning - operating	39,133	-	39,133	(13,536)	25,597	25,597	-
Child and adolescent information system - operati	26,418	-	26,418	-	26,418	26,418	-
Working families income supplement - operating	-	4,511,000	4,511,000	-	4,511,000	3,962,984	548,016
Information technology initiatives - operating	-	913,250	913,250	809,200	1,722,450	1,709,603	12,847
Desktop computer modernization - operating	3,149,289	4,180,200	7,329,489	(39)	7,329,450	7,110,071	219,379
Utilities - operating	283,315	11,048,060	11,331,375	(40,001)	11,291,374	10,452,466	838,908
Total - Nondepartmental	7,087,392	56,190,760	63,278,152	296,661	63,574,813	61,343,937	2,230,876
Total Expenditures	29,312,780	551,790,570	581,103,350	12,377,681	593,481,031	582,989,330	10,491,701
Excess of Revenues over (under) Expenditures	(29,312,780)	1,221,023,365	1,191,710,585	(11,150,712)	1,180,559,873	1,258,244,457	77,684,584
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Consolidated Fire Tax Districts	-	161,000	161,000	-	161,000	161,000	-
Recreation	-	3,732,840	3,732,840	-	3,732,840	3,732,840	-
Mass Transit	-	5,129,330	5,129,330	-	5,129,330	5,129,330	-
Urban Districts	-	154,510	154,510	-	154,510	154,510	-
Housing Activities	-	523,200	523,200	-	523,200	523,200	-
Cable TV	-	3,149,670	3,149,670	-	3,149,670	3,149,670	-
Total Special Revenue Funds	-	12,850,550	12,850,550	-	12,850,550	12,850,550	-
Enterprise Funds:							
Liquor	-	19,410,070	19,410,070	(11,040)	19,399,030	22,334,790	2,935,760
Parking Lot Districts	-	559,780	559,780	-	559,780	559,780	-
Solid Waste Activities	-	1,585,660	1,585,660	-	1,585,660	1,585,660	-
Community Use of Public Facilities	-	284,990	284,990	-	284,990	284,990	-
Permitting Services	-	8,612,980	8,612,980	-	8,612,980	8,612,980	-
Total Enterprise Funds	-	30,453,480	30,453,480	(11,040)	30,442,440	33,378,200	2,935,760
Internal Service Funds:							
Central Duplicating	-	500,000	500,000	-	500,000	500,000	-
Total Internal Service Funds	-	500,000	500,000	-	500,000	500,000	-
Total Transfers In	-	43,804,030	43,804,030	(11,040)	43,792,990	46,728,750	2,935,760

(Continued)

## MONTGOMERY COUNTY, MARYLAND

## GENERAL FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONCLUDED

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

## Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Component Units:							
Montgomery County Public Schools	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 509,004	\$ 509,004
Montgomery College	-	-	-	-	-	-	-
Housing Opportunities Commission	-	103,750	103,750	-	103,750	103,750	-
Total Transfers In - Component Units	-	103,750	103,750	-	103,750	612,754	509,004
Transfers (Out):							
Special Revenue Fund:							
Recreation	-	(1,032,050)	(1,032,050)	-	(1,032,050)	(1,032,050)	-
Urban Districts	-	(1,253,160)	(1,253,160)	-	(1,253,160)	(1,253,160)	-
Mass Transit	-	(658,770)	(658,770)	(897,510)	(1,556,280)	(1,556,280)	-
Revenue Stabilization	-	-	-	-	-	(7,673,354)	(7,673,354)
Consolidated Fire Tax District	-	-	-	(791,000)	(791,000)	(791,000)	-
Housing Activities	-	(13,000,000)	(13,000,000)	-	(13,000,000)	(13,000,000)	-
Economic Development	-	(336,640)	(336,640)	(1,600,000)	(1,936,640)	(1,936,640)	-
Water Quality Protection	-	-	-	(458,260)	(458,260)	(458,260)	-
Grants	-	-	-	(681,727)	(681,727)	(574,631)	107,096
Total Special Revenue Funds	-	(16,280,620)	(16,280,620)	(4,428,497)	(20,709,117)	(28,275,375)	(7,566,258)
Internal Service Fund:							
Motor Pool	-	(449,860)	(449,860)	(51,450)	(501,310)	(471,622)	29,688
Total Internal Service Funds	-	(449,860)	(449,860)	(51,450)	(501,310)	(471,622)	29,688
Enterprise Funds:							
Community Use of Public Facilities	-	(5,000)	(5,000)	-	(5,000)	(5,000)	-
Parking Lot Districts	(612,596)	(750,000)	(1,362,596)	-	(1,362,596)	(750,000)	612,596
Solid Waste Activities	-	(1,377,550)	(1,377,550)	-	(1,377,550)	(1,377,550)	-
Permitting Services	-	(1,010,570)	(1,010,570)	-	(1,010,570)	(1,010,570)	-
Total Enterprise Funds	(612,596)	(3,143,120)	(3,755,716)	-	(3,755,716)	(3,143,120)	612,596
Debt Service Fund	-	(164,804,300)	(164,804,300)	3,520,656	(161,283,644)	(157,010,129)	4,273,515
Capital Projects Fund	(53,422,073)	(61,601,800)	(115,023,873)	14,403,641	(100,620,232)	(61,368,324)	39,251,908
Total Transfers (Out)	(54,034,669)	(246,279,700)	(300,314,369)	13,444,350	(286,870,019)	(250,268,570)	36,601,449
Transfers (Out) - Component Units / Joint Ventures:							
Montgomery County Public Schools - Operating	-	(1,031,007,651)	(1,031,007,651)	-	(1,031,007,651)	(1,031,003,934)	3,717
Montgomery County Public Schools - Capital	(17,089,423)	(7,868,000)	(24,957,423)	(4,372,000)	(29,329,423)	(17,355,874)	11,973,549
Total Montgomery County Public Schools	(17,089,423)	(1,038,875,651)	(1,055,965,074)	(4,372,000)	(1,060,337,074)	(1,048,359,808)	11,977,266
Montgomery Community College - Operating	-	(57,818,000)	(57,818,000)	-	(57,818,000)	(57,818,000)	-
Montgomery Community College - Capital	(3,975,155)	(7,071,000)	(11,046,155)	141,765	(10,904,390)	(6,777,126)	4,127,264
Total Montgomery Community College	(3,975,155)	(64,889,000)	(68,864,155)	141,765	(68,722,390)	(64,595,126)	4,127,264
Housing Opportunity Commission - Operating	-	(4,352,000)	(4,352,000)	-	(4,352,000)	(4,134,400)	217,600
Housing Opportunity Commission - Capital	(587,000)	(250,000)	(837,000)	-	(837,000)	(540,730)	296,270
Total Housing Opportunity Commission	(587,000)	(4,602,000)	(5,189,000)	-	(5,189,000)	(4,675,130)	513,870
Maryland National Capital Park and Planning Commission - Operating	-	-	-	(150,000)	(150,000)	-	150,000
Total Transfers (Out) - Component Units/ Joint Ventures	(21,651,578)	(1,108,366,651)	(1,130,018,229)	(4,380,235)	(1,134,398,464)	(1,117,630,064)	16,768,400
Total Other Financing Sources (Uses)	(75,686,247)	(1,310,738,571)	(1,386,424,818)	9,053,075	(1,377,371,743)	(1,320,557,130)	56,814,613
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(104,999,027)	(89,715,206)	(194,714,233)	(2,097,637)	(196,811,870)	(62,312,673)	134,499,197
Fund Balance - Beginning of Year, as restated	104,999,027	154,737,511	259,736,538	(2,261,938)	257,474,600	257,474,600	-
Fund Balance - End of Year	\$ -	\$ 65,022,305	\$ 65,022,305	\$ (4,359,575)	\$ 60,662,730	\$ 195,161,927	\$ 134,499,197

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2002  
**Exhibit A-8**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	
<b>ASSETS</b>						
Current Assets:						
Equity in pooled cash and investments	\$ 5,417,314	\$ 43,044,044	\$ 28,373,781	\$17,370,793	\$ 94,205,932	\$ 73,456,408
Cash	32,375	1,000	150	50	33,575	300
Cash with fiscal agent	-	-	192,176	-	192,176	-
Property taxes receivable	-	-	1,280,039	-	1,280,039	-
Accounts receivable	1,909,307	2,923,093	179	-	4,832,579	211,593
Parking violations receivable	-	-	3,319,609	-	3,319,609	-
Notes receivable	-	-	-	-	-	83,650
Due from other funds	-	-	-	-	-	2,288,638
Due from component units	-	62,679	285,823	-	348,502	701,471
Due from other governments	-	109,905	205,032	-	314,937	221,906
Inventory of supplies	25,122,213	-	-	-	25,122,213	1,587,914
Prepays	288,502	6,500	14,904	1,402	311,308	361,146
Other assets	96,538	-	-	-	96,538	-
Total Current Assets	<u>32,866,249</u>	<u>46,147,221</u>	<u>33,671,693</u>	<u>17,372,245</u>	<u>130,057,408</u>	<u>78,913,026</u>
Noncurrent Assets:						
Restricted equity in pooled cash and investments	-	38,669,556	9,515,778	-	48,185,334	-
Restricted investments	-	4,325,060	-	-	4,325,060	-
Restricted Assets	-	<u>42,994,616</u>	<u>9,515,778</u>	-	<u>52,510,394</u>	-
Unamortized bond costs	-	944,653	778,462	-	1,723,115	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,517,182	-	52,833,367	22,505
Improvements other than buildings	-	72,008,913	31,699,402	-	103,708,315	-
Buildings	7,388,354	23,407,304	105,864,791	-	136,660,449	584,297
Furniture, fixtures, equipment, and machinery	5,474,600	7,341,979	117,227	4,091,887	17,025,693	3,753,808
Automobiles and trucks	2,732,287	510,713	-	-	3,243,000	58,504,223
Construction in progress	-	-	8,232,399	-	8,232,399	-
Subtotal	16,076,671	121,103,664	180,431,001	4,091,887	321,703,223	62,864,833
Less: Accumulated depreciation	8,971,996	84,757,591	59,192,987	3,583,508	156,506,082	40,067,045
Total Capital Assets (net of accumulated depreciation)	<u>7,104,675</u>	<u>36,346,073</u>	<u>121,238,014</u>	<u>508,379</u>	<u>165,197,141</u>	<u>22,797,788</u>
Total Noncurrent Assets	<u>7,104,675</u>	<u>80,285,342</u>	<u>131,532,254</u>	<u>508,379</u>	<u>219,430,650</u>	<u>22,797,788</u>
Total Assets	<u>39,970,924</u>	<u>126,432,563</u>	<u>165,203,947</u>	<u>17,880,624</u>	<u>349,488,058</u>	<u>101,710,814</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	13,110,687	4,750,619	2,114,297	158,928	20,134,531	5,645,278
Interest payable	-	180,156	255,730	-	435,886	-
Retainage payable	-	56,334	1,682,818	-	1,739,152	-
Deposits	-	-	55,889	-	55,889	-
Claims payable	-	-	-	-	-	58,322,954
Accrued liabilities	1,619,844	702,301	291,436	7,233,817	9,847,398	2,418,154
Due to other funds	102,815	36,422	14,413	112,238	265,888	92,767
Due to component units	-	-	-	452,867	452,867	55,923
Due to other governments	360,946	1,166,636	30,730	1,914	1,560,226	175,213
Deferred revenue	-	-	29,086	467,710	496,796	81,817
General obligation bonds payable	-	89,851	350,000	-	439,851	-
Revenue bonds payable	-	2,297,917	4,947,848	-	7,245,765	-
Landfill closure costs	-	1,452,000	-	-	1,452,000	-
Total Current Liabilities	<u>15,194,292</u>	<u>10,732,236</u>	<u>9,772,247</u>	<u>8,427,474</u>	<u>44,126,249</u>	<u>66,792,106</u>
Noncurrent Liabilities:						
Notes payable	-	800,000	-	-	800,000	-
General obligation bonds payable	-	192,382	-	-	192,382	-
Revenue bonds payable	-	31,606,010	47,189,981	-	78,795,991	-
Landfill closure costs	-	23,235,900	-	-	23,235,900	-
Compensated absences	273,354	124,656	61,694	318,767	778,471	261,810
Total Noncurrent Liabilities	<u>273,354</u>	<u>55,958,948</u>	<u>47,251,675</u>	<u>318,767</u>	<u>103,802,744</u>	<u>261,810</u>
Total Liabilities	<u>15,467,646</u>	<u>66,691,184</u>	<u>57,023,922</u>	<u>8,746,241</u>	<u>147,928,993</u>	<u>67,053,916</u>
<b>NET ASSETS</b>						
Invested in capital, net of related debt	7,104,675	2,159,913	68,750,185	508,379	78,523,152	22,797,788
Restricted for debt service	-	42,994,616	9,515,778	-	52,510,394	-
Unrestricted	17,398,603	14,586,850	29,914,062	8,626,004	70,525,519	11,859,110
Total net assets	<u>\$24,503,278</u>	<u>\$ 59,741,379</u>	<u>\$ 108,180,025</u>	<u>\$ 9,134,383</u>	<u>201,559,065</u>	<u>\$ 34,656,898</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,621,685)	
Net assets of business-type activities					<u>\$199,937,380</u>	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-9**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	
<b>OPERATING REVENUES</b>						
Sales - net	\$ 150,039,921	\$ -	\$ -	\$ -	\$ 150,039,921	\$ -
Charges for services	-	83,084,444	12,445,606	6,222,325	101,752,375	126,863,593
Licenses and permits	11,850	7,660	-	18,528,832	18,548,342	-
Fines and penalties	-	65,424	5,951,350	67,465	6,084,239	-
Claim recoveries	-	-	-	-	-	1,888,932
Total Operating Revenues	<u>150,051,771</u>	<u>83,157,528</u>	<u>18,396,956</u>	<u>24,818,622</u>	<u>276,424,877</u>	<u>128,752,525</u>
<b>OPERATING EXPENSES</b>						
Cost of goods sold	107,618,768	-	-	-	107,618,768	-
Personnel costs	14,163,024	8,253,892	2,672,579	14,433,389	39,522,884	13,392,259
Postage	44,757	101,058	10,524	-	156,339	1,462,987
Self-insurance incurred and estimated claims	-	-	-	-	-	71,628,026
Insurance	300,890	44,540	40,490	5,554	391,474	28,015,311
Supplies and materials	353,973	192,951	305,440	338,641	1,191,005	10,655,230
Contractual services	872,897	73,089,722	3,290,052	4,070,135	81,322,806	8,536,040
Communications	98,142	274,860	149,120	354,821	876,943	168,810
Transportation	279,846	240,162	131,814	370,071	1,021,893	35,495
Public utility service	335,998	87,895	725,439	434,570	1,583,902	472,587
Rentals	3,087,720	16,845	1,211,422	1,213,819	5,529,806	442,670
Maintenance	339,111	357,212	2,334,096	531,152	3,561,571	7,356,699
Depreciation and amortization	700,327	2,861,302	5,811,479	723,647	10,096,755	5,008,036
Landfill closure expense	-	1,029,541	-	-	1,029,541	-
Other	366,441	288,124	96,262	130,080	880,907	490,913
Total Operating Expenses	<u>128,561,894</u>	<u>86,838,104</u>	<u>16,778,717</u>	<u>22,605,879</u>	<u>254,784,594</u>	<u>147,665,063</u>
Operating Income (Loss)	<u>21,489,877</u>	<u>(3,680,576)</u>	<u>1,618,239</u>	<u>2,212,743</u>	<u>21,640,283</u>	<u>(18,912,538)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Property taxes	-	-	7,018,979	-	7,018,979	-
Intergovernmental	-	-	-	65,680	65,680	604,521
Gain (loss) on disposal of capital assets	4,554	46,080	343,528	-	394,162	190,225
Investment income	-	2,735,647	581,205	572,941	3,889,793	2,296,959
Interest expense	-	(2,150,065)	(1,657,241)	(21,642)	(3,828,948)	(46,120)
Other revenue	10,263	305,334	941,566	29,474	1,286,637	60,013
Total Nonoperating Revenues (Expenses)	<u>14,817</u>	<u>936,996</u>	<u>7,228,037</u>	<u>646,453</u>	<u>8,826,303</u>	<u>3,105,598</u>
Nonoperating Income (Loss)	<u>21,504,694</u>	<u>(2,743,580)</u>	<u>8,846,276</u>	<u>2,859,196</u>	<u>30,466,586</u>	<u>(15,806,940)</u>
Extraordinary and Special Items:						
Premium stabilization reserve distribution	-	-	-	-	-	3,358,309
Insurance demutualization distribution	-	-	-	-	-	641,871
Loss from settlement of interfund receivable	-	-	(1,966,187)	-	(1,966,187)	-
Total Extraordinary and Special Items	<u>-</u>	<u>-</u>	<u>(1,966,187)</u>	<u>-</u>	<u>(1,966,187)</u>	<u>4,000,180</u>
Income (Loss) before Transfers	<u>21,504,694</u>	<u>(2,743,580)</u>	<u>6,880,089</u>	<u>2,859,196</u>	<u>28,500,399</u>	<u>(11,806,760)</u>
Transfers In (Out):						
Transfers in	-	-	750,000	5,000	755,000	498,491
Transfers out	<u>(22,334,790)</u>	<u>(1,590,660)</u>	<u>(4,447,143)</u>	<u>(8,897,970)</u>	<u>(37,270,563)</u>	<u>(500,000)</u>
Total Transfers In (Out)	<u>(22,334,790)</u>	<u>(1,590,660)</u>	<u>(3,697,143)</u>	<u>(8,892,970)</u>	<u>(36,515,563)</u>	<u>(1,509)</u>
Change in Net Assets	(830,096)	(4,334,240)	3,182,946	(6,033,774)	(8,015,164)	(11,808,269)
Total Net Assets - Beginning of Year	<u>25,333,374</u>	<u>64,075,619</u>	<u>104,997,079</u>	<u>15,168,157</u>		<u>46,465,167</u>
Total Net Assets - End of Year	<u>\$ 24,503,278</u>	<u>\$ 59,741,379</u>	<u>\$ 108,180,025</u>	<u>\$ 9,134,383</u>		<u>\$ 34,656,898</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					(399,084)	
Change in net assets of business-type activities					\$ (8,414,248)	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-10**

	<b>Business-Type Activities - Enterprise Funds</b>					<b>Governmental Activities - Internal Service Funds</b>
	<b>Liquor</b>	<b>Solid Waste Disposal and Collection</b>	<b>Parking Lot Districts</b>	<b>Other Enterprise Funds</b>	<b>Totals</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 152,828,450	\$ 91,444,498	\$ 17,734,641	\$ 23,808,051	\$ 285,815,640	\$131,094,103
Payments to suppliers	(114,004,638)	(75,441,626)	(7,558,826)	(7,446,446)	(204,451,536)	(60,252,025)
Payments to employees	(14,003,283)	(9,004,051)	(2,624,931)	(14,356,768)	(39,989,033)	(13,276,289)
Internal activity - payments from other funds	-	-	-	1,010,570	1,010,570	-
Claims paid	-	-	-	-	-	(63,852,180)
Other revenue	10,263	259,792	655,743	214,398	1,140,196	-
Proceeds from premium stabilization reserve distribution	-	-	-	-	-	3,358,309
Net Cash Provided (Used) by Operating Activities	<u>24,830,792</u>	<u>7,258,613</u>	<u>8,206,627</u>	<u>3,229,805</u>	<u>43,525,837</u>	<u>(2,928,082)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Property tax collections	-	-	6,852,585	-	6,852,585	-
Operating subsidies and transfers from other funds	-	-	750,000	5,000	755,000	-
Operating subsidies and transfers to other funds	(22,334,790)	(1,590,660)	(4,447,143)	(8,897,970)	(37,270,563)	(500,000)
Intergovernmental revenue	-	-	-	65,680	65,680	604,521
Interest paid	-	-	-	-	-	(46,120)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(22,334,790)</u>	<u>(1,590,660)</u>	<u>3,155,442</u>	<u>(8,827,290)</u>	<u>(29,597,298)</u>	<u>58,401</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from capital debt	-	-	25,546,342	-	25,546,342	-
Refunding of debt service	-	-	863,504	-	863,504	-
Proceeds from sale of capital assets	4,554	46,080	-	-	50,634	336,355
Purchases of capital assets	(147,300)	(2,360,458)	(21,771,185)	(63,654)	(24,342,597)	(10,296,595)
Principal paid on capital debt	-	(2,294,849)	(3,785,000)	(1,515,464)	(7,595,313)	-
Interest paid on capital debt	-	(2,160,047)	(1,834,066)	(31,984)	(4,026,097)	-
Proceeds from notes receivable	-	-	-	-	-	28,889
Internal activity - payments from other funds	-	-	-	-	-	498,491
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(142,746)</u>	<u>(6,769,274)</u>	<u>(980,405)</u>	<u>(1,611,102)</u>	<u>(9,503,527)</u>	<u>(9,432,860)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from insurance demutualization	-	-	-	-	-	641,871
Proceeds from sales and maturities of investments	-	-	-	-	-	72,000
Investment income from pooled investments	-	2,440,526	581,205	572,941	3,594,672	2,292,019
Investment income from nonpooled investments	-	397,753	-	-	397,753	13,339
Net Cash Provide (Used) by Investing Activities	<u>-</u>	<u>2,838,279</u>	<u>581,205</u>	<u>572,941</u>	<u>3,992,425</u>	<u>3,019,229</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,353,256	1,736,958	10,962,869	(6,635,646)	8,417,437	(9,283,312)
Balances - Beginning of Year	3,096,433	79,977,642	27,119,016	24,006,489	134,199,580	82,740,020
Balances - End of Year	<u>\$ 5,449,689</u>	<u>\$ 81,714,600</u>	<u>\$ 38,081,885</u>	<u>\$ 17,370,843</u>	<u>\$ 142,617,017</u>	<u>\$ 73,456,708</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 21,489,877	\$ (3,680,576)	\$ 1,618,239	\$ 2,212,743	\$ 21,640,283	\$(18,912,538)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	700,327	2,861,302	5,811,479	723,647	10,096,755	5,008,036
Other revenue	10,263	259,792	941,566	-	1,211,621	60,013
Proceeds from premium stabilization reserve distribution	-	-	-	-	-	3,358,309
Changes in assets and liabilities:						
Receivables, net	(482,366)	8,286,970	(949,395)	-	6,855,209	2,341,578
Inventories, prepaids and other assets	(1,183,938)	(178)	1,257	4,300	(1,178,559)	(144,317)
Accounts payable and other liabilities	4,075,912	282,011	735,833	(30,982)	5,062,774	5,158,545
Accrued expenses	220,717	(750,708)	47,648	320,097	(162,246)	202,292
Net Cash Provided (Used) by Operating Activities	<u>\$ 24,830,792</u>	<u>\$ 7,258,613</u>	<u>\$ 8,206,627</u>	<u>\$ 3,229,805</u>	<u>\$ 43,525,837</u>	<u>\$ (2,928,082)</u>
<b>Noncash investing, capital and financing activities:</b>						
Donation of capital assets	\$ -	\$ -	\$ -	\$ 29,475	\$ 29,475	\$ -
Decrease in fair value of investments that are not cash and cash equivalents	-	-	-	-	-	8,399
Capital asset disposals	164,955	-	166,472	-	331,427	49,818
Asset acquired through exchange	-	-	510,000	-	510,000	-

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2002  
**Exhibit A-11**

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
<b>ASSETS</b>				
Current Assets:				
Equity in pooled cash and investments	\$ 2,404,485	\$ 24,114,322	\$ 2,153,880	\$ 39,405,818
Cash	-	-	-	65,249
Investments	2,113,070,910	-	-	-
Receivables:				
Property taxes	-	-	-	7,552,763
Accounts	3,176	-	-	13,083
Other	109,737	-	-	894,492
Due from other funds	3,237,944	-	-	-
Due from component units	68,053	-	-	-
Due from other governments	29,044	-	-	-
Prepays	1,205	-	100,000	-
Total Current Assets	<u>2,118,924,554</u>	<u>24,114,322</u>	<u>2,253,880</u>	<u>47,931,405</u>
Noncurrent Assets:				
Capital Assets:				
Furniture, fixtures, equipment, and machinery	111,375	-	-	-
Less: Accumulated depreciation	<u>111,375</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>2,118,924,554</u>	<u>24,114,322</u>	<u>2,253,880</u>	<u>\$ 47,931,405</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	227,270,031	-	1,203	5,321
Accrued liabilities	144,198	-	-	-
Deposits	-	-	-	637,673
Due to other funds	920	-	-	-
Due to other governments	-	-	-	7,482,756
Undistributed taxes	-	-	-	4,713,609
Deferred revenue	186,183	-	-	-
Property tax refunds due	-	-	-	9,566,982
Tax sale surplus and redemptions payable	-	-	-	4,397,405
Other liabilities	-	-	-	21,127,659
Total Current Liabilities	<u>227,601,332</u>	<u>-</u>	<u>1,203</u>	<u>47,931,405</u>
Noncurrent Liabilities:				
Compensated absences	<u>37,140</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>227,638,472</u>	<u>-</u>	<u>1,203</u>	<u>\$ 47,931,405</u>
<b>NET ASSETS</b>				
Held in trust for pension benefits, external investment pool participants, and other purposes	<u>\$ 1,891,286,082</u>	<u>\$ 24,114,322</u>	<u>\$ 2,252,677</u>	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
**Exhibit A-12**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Investment Trust</b>	<b>Private- Purpose Trusts</b>
<b>ADDITIONS</b>			
Contributions:			
Employers	\$ 44,959,870	\$ -	\$ -
Members	36,337,081	-	397,735
Share purchases	-	11,312,331	-
Total Contributions	<u>81,296,951</u>	<u>11,312,331</u>	<u>397,735</u>
Investment income (loss)	(143,895,772)	592,220	43,159
Less: investment expenses	<u>9,260,767</u>	<u>-</u>	<u>-</u>
Net Investment Income (Loss)	<u>(153,156,539)</u>	<u>592,220</u>	<u>43,159</u>
Other income - forfeitures	<u>282,481</u>	<u>-</u>	<u>-</u>
Total Additions (Deductions), net	<u>(71,577,107)</u>	<u>11,904,551</u>	<u>440,894</u>
<b>DEDUCTIONS</b>			
Benefits:			
Annuities:			
Retirees	64,030,235	-	-
Survivors	4,041,521	-	-
Disability	<u>17,250,631</u>	<u>-</u>	<u>-</u>
Total Benefits	<u>85,322,387</u>	<u>-</u>	<u>-</u>
Share redemptions	-	12,955,000	-
Member refunds	11,524,203	-	-
Administrative expenses	<u>2,228,545</u>	<u>-</u>	<u>127,538</u>
Total Deductions	<u>99,075,135</u>	<u>12,955,000</u>	<u>127,538</u>
Net Increase (Decrease)	(170,652,242)	(1,050,449)	313,356
Net Assets - Beginning of Year, as restated	<u>2,061,938,324</u>	<u>25,164,771</u>	<u>1,939,321</u>
Net Assets - End of Year	<u>\$ 1,891,286,082</u>	<u>\$ 24,114,322</u>	<u>\$ 2,252,677</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
JUNE 30, 2002  
**Exhibit A-13**

	MCPS	HOC	Nonmajor Component Units	Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 17,442,696	\$ 6,654,263	\$ 26,649,807	\$ 50,746,766
Cash with fiscal agents	138,042	28,195,001	-	28,333,043
Cash	4,929,986	17,260	2,797,183	7,744,429
Investments - cash equivalents	27,360,538	17,431,262	25,407,732	70,199,532
Investments	9,026,637	-	-	9,026,637
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	19,940,589	19,940,589
Accounts	5,614,721	5,285,084	4,852,913	15,752,718
Notes	-	14,095	-	14,095
Mortgages	-	312,598,247	-	312,598,247
Interest	-	5,199,029	-	5,199,029
Other	1,470,678	3,432,763	707,731	5,611,172
Due from primary government	40,413,201	1,223,805	2,352,791	43,989,797
Due from other governments	33,116,361	1,234,488	868,955	35,219,804
Inventory of supplies	7,974,069	245,980	1,443,851	9,663,900
Prepays	85,149	1,531,565	153,281	1,769,995
Deferred charges	-	-	276,990	276,990
Other assets	-	23,067,731	194,224	23,261,955
Restricted Assets:				
Equity in pooled cash and investments	-	11,376,363	-	11,376,363
Cash with fiscal agents	-	8,072,429	-	8,072,429
Cash	-	-	139,356	139,356
Investments - cash equivalents	-	85,737,679	4,403,287	90,140,966
Investments	-	124,121,906	-	124,121,906
Capital assets:				
Nondepreciable assets	133,564,851	75,095,686	40,911,050	249,571,587
Depreciable assets, net	1,080,999,046	270,897,160	133,760,055	1,485,656,261
Total Assets	<u>1,362,135,975</u>	<u>981,431,796</u>	<u>264,859,795</u>	<u>2,608,427,566</u>
<b>LIABILITIES</b>				
Accounts payable	51,783,876	13,811,522	6,918,322	72,513,720
Interest payable	36,446	14,431,026	637,122	15,104,594
Retainage payable	8,664,254	-	151,486	8,815,740
Accrued liabilities	-	7,844,506	371,662	8,216,168
Claims payable	24,437,715	-	-	24,437,715
Deposits	-	4,561,549	48,166	4,609,715
Due to primary government	23,697,868	37,666,181	2,786,776	64,150,825
Deferred revenue	6,343,523	11,626,282	3,679,137	21,648,942
Other liabilities	-	7,706,284	-	7,706,284
Noncurrent liabilities:				
Due within one year	13,775,074	44,921,103	2,907,081	61,603,258
Due in more than one year	94,187,135	679,837,302	68,292,547	842,316,984
Total Liabilities	<u>222,925,891</u>	<u>822,405,755</u>	<u>85,792,299</u>	<u>1,131,123,945</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,187,517,535	57,991,488	150,194,633	1,395,703,656
Restricted for:				
Capital projects	-	-	1,165,782	1,165,782
Debt Service	-	54,115,369	3,337,193	57,452,562
Other purposes	145,874	4,221,610	1,986,105	6,353,589
Unrestricted (deficit)	(48,453,325)	42,697,574	22,383,783	16,628,032
Total net assets	<u>\$ 1,139,210,084</u>	<u>\$ 159,026,041</u>	<u>\$ 179,067,496</u>	<u>\$ 1,477,303,621</u>

Notes to Financial Statements are an integral part of this statement.



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
Exhibit A-14

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total	
Component Units:									
General government (BUPI)	\$ 2,411,444	\$ 2,391,911	\$ -	\$ -	\$ -	\$ -	\$ (19,533)	\$ (19,533)	
Culture and recreation (MCRA)	11,900,551	10,669,101	-	1,557,739	-	-	326,289	326,289	
Community development and housing (HOC)	147,671,468	93,389,820	52,549,161	3,883,008	-	2,150,521	-	2,150,521	
Education:									
Elementary and secondary education (MCPS)	1,484,892,917	29,089,775	105,657,897	41,190,416	(1,308,954,829)	-	-	(1,308,954,829)	
Higher education (MCC)	158,623,824	49,446,459	13,264,733	1,610,511	-	-	(94,302,121)	(94,302,121)	
Total component units	<u>\$ 1,805,500,204</u>	<u>\$ 184,987,066</u>	<u>\$ 171,471,791</u>	<u>\$ 48,241,674</u>	<u>(1,308,954,829)</u>	<u>2,150,521</u>	<u>(93,995,365)</u>	<u>(1,400,799,673)</u>	
General revenues:									
Grants and contributions not restricted to specific programs					1,373,106,816	-	105,150,966	1,478,257,782	
Investment income					694,496	2,639,232	2,323,664	5,657,392	
Gain (loss) on sale of capital assets					(86,633)	-	(147,184)	(233,817)	
Total general revenues					<u>1,373,714,679</u>	<u>2,639,232</u>	<u>107,327,446</u>	<u>1,483,681,357</u>	
Change in net assets					64,759,850	4,789,753	13,332,081	82,881,684	
Net assets - beginning					1,074,450,234	154,236,288	165,735,415	1,394,421,937	
Net assets - ending					<u>\$ 1,139,210,084</u>	<u>\$ 159,026,041</u>	<u>\$ 179,067,496</u>	<u>\$ 1,477,303,621</u>	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND

**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2002

**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A REPORTING ENTITY
- B GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
- C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
- D IMPLEMENTATION OF NEW ACCOUNTING STANDARDS
- E ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

**NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

- A BUDGETARY INFORMATION
- B DEFICIT FUND EQUITY

**NOTE III – DETAILED NOTES ON ALL FUNDS**

- A CASH AND INVESTMENTS
- B RECEIVABLES
- C CAPITAL ASSETS
- D INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
- E LEASES
- F LONG-TERM DEBT
- G SEGMENT INFORMATION
- H FUND EQUITY
- I SIGNIFICANT TRANSACTIONS WITH DISCRETELY PRESENTED COMPONENT UNITS
- J EXTRAORDINARY GAINS AND LOSSES AND SPECIAL ITEMS

**NOTE IV – OTHER INFORMATION**

- A RISK MANAGEMENT
- B SIGNIFICANT COMMITMENTS AND CONTINGENCIES
- C SUBSEQUENT EVENTS
- D JOINT VENTURES
- E EMPLOYEE BENEFITS
- F PENSION PLAN OBLIGATIONS

## **NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

### **A) Reporting Entity**

#### **Background**

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The Montgomery County, Maryland, reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

#### **Discretely Presented Component Units**

The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units combining statements. The following are the County's component units, each of which has a June 30 fiscal year-end:

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

Montgomery Community College (MCC) provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Montgomery County Revenue Authority (MCRA) is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the Federal Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850	Montgomery Community College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 101 Monroe Street, 4 <sup>th</sup> Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County 10400 Detrick Avenue Kensington, MD 20895	Bethesda Urban Partnership, Inc. 7906 Woodmont Avenue Bethesda, MD 20814	

### **Joint Ventures**

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D.

Complete financial statements can be obtained at the joint ventures' administrative offices listed below:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 8720 Georgia Avenue, Suite 904 Silver Spring, MD 20910
Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001	Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002	Northeast Maryland Waste Disposal Authority 25 South Charles Street, Suite 2105 Baltimore, MD 21201-3330

## **B) Government-Wide and Fund Financial Statements**

**Government-wide Financial Statements** – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**Statement of Net Assets** – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

**Statement of Activities** – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

**Fund Financial Statements** – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

**General Fund Budget-to-Actual Comparison Statement** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the County has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

**C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Measurement Focus and Basis of Accounting**

**Full Accrual Basis Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund (except agency fund) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements.

**Modified Accrual Basis Financial Statements** - Governmental fund and agency fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes the final fiscal year quarterly distribution (which is normally received in August or September after the fiscal year-end), and amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Most deferred revenue is expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

Licenses and permits, charges for services, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue. Fines and forfeitures, primarily parking violations, are recorded as receivables and deferred revenue at the time the underlying event takes place. Revenue is recognized as cash is received during the year, or if received within the County's 30 day availability period at year-end.

The County does not operate any utilities. Water and sewer services are provided by WSSC through a joint venture relationship (see Note IV-D). Other common utilities are provided by regulated private industry.

### **Financial Statement Presentation**

The County reports the following major governmental funds:

**General Fund** - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

**Debt Service Fund** - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

**Capital Projects Fund** - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

**Liquor Enterprise Fund** - This fund accounts for the operations of twenty-four liquor stores and the Montgomery County Liquor Warehouse. The Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

**Solid Waste Disposal and Collection Enterprise Fund** - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County.

**Parking Lot Districts Enterprise Fund** - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

**Other Governmental Funds** - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

**Internal Service Funds** - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four Internal Service Funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

**Pension and Other Employee Benefit Trust Fund** - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees Retirement Savings Plan (defined contribution plan) and Deferred Compensation Plan, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

**Investment Trust Fund** - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

**Private-Purpose Trust Funds** - These funds are used to account for funds whose principal and interest are legally held in trust and must be expended in accordance with their designated purposes.

**Agency Funds** - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.



Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

#### **D) Implementation of New Accounting Standards**

Effective July 1, 2001, the County has adopted the provisions of the following new accounting standards:

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* – These statements affect the manner in which the County records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare the private-sector financial reports.

GASB34, as amended by GASB37, established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Significant impacts of GASB34 on the County's financial statements are:

- Inclusion of government-wide financial statements. (See Notes I-B and I-C)
- Elimination, creation, and modification of certain fund types. (See Note III-H)
- Inclusion of a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in its annual reports.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures* – This statement modifies, establishes, and rescinds certain financial statement disclosure requirements.

In addition, effective July 1, 2001, MCC adopted the provisions of GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

#### **E) Assets, Liabilities, and Net Assets or Equity**

##### **1) Cash and Investments**

**Pooled Cash and Investments** – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value. See Note III-A for additional information.

**Non-pooled Investments:**

**Governmental Fund Types** – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a Primary Government fund) are stated at fair value.

**Proprietary Fund Types** – The Solid Waste Disposal and Collection Enterprise Fund investment is a nonparticipating investment contract and is therefore stated at cost plus accrued interest, which approximates fair value.

**Pension and Other Employee Benefit Trust Fiduciary Fund Type** – Investments are stated at fair value determined primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value. Pension investments are comprised of an actively managed pool of equities, bonds, real estate commingled funds, and short-term securities, and passively managed index funds, managed by professional investment advisory firms under contract with the Board of Investment Trustees. Commingled funds are pooled investment vehicles. The defined benefit pension plan pension fund invests in derivatives, in accordance with the policy of the Board of Investment Trustees. The policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. During FY02, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The pension fund entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The defined benefit pension plan pension fund also participates in securities lending transactions (see Note III-A).

**Cash and Cash Equivalents** – For Statement of Cash Flows reporting purposes, the County has defined “cash equivalents” as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for “cash and cash equivalents” in the Statement of Cash Flows includes the following: “Equity in pooled cash and investments,” “Cash,” “Cash with fiscal agents,” “Restricted Equity in pooled cash and investments,” and “Restricted Investments.”

**2) Receivables and Payables**

**Due from/To Other Funds and Internal Balances** – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are current and are referred to as “due to/from other funds.” All other outstanding balances between funds are also reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

**Trade Accounts Receivable** – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

3) **Inventories, Prepaids, and Other Assets**

**Inventories** – Inventories are valued at lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

**Prepaids** – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

**Other Assets** – Property liens acquired at tax sale includes costs, such as delinquent taxes, interest, penalties, and advertising costs, paid at public auction which place the County in a position of primary lien-holder against the related property.

4) **Restricted Assets**

Certain proceeds of the County's bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

5) **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	20 – 40
Parking garages	30
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Machinery and equipment	3 – 20
Office furniture and fixtures	3 – 15
Automobiles and trucks	2 – 15

#### **6) Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, 75% and 25% of such accrued leave is classified as current and long-term, respectively. In the fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

#### **7) Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

#### **8) Fund Equity**

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in

unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2002, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$774,849,011. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$444,633,719.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. Designations of fund balance represent tentative management plans that are subject to change.

#### **9) Property Taxes**

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY02. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate did not exceed the Charter limit for FY02.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Effective July 2000, owner-occupied residential property owners began paying their tax on a semi-annual schedule; the first and second installments for FY02 were due September 30, 2001 and December 31, 2001, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30<sup>th</sup>.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1<sup>st</sup> or in the case of a semi-annual schedule, January 1<sup>st</sup>.

### **NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **A) Budgetary Information**

##### **Overview**

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds, Enterprise Funds, and the Liability and Property Coverage Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a reservation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

### **Approval**

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note IV-H1), such encumbrances are reserved as part of the current fiscal year's fund balance. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY02, the County Council increased the operating budget through supplemental and special appropriations by \$37.4 million. In addition, supplemental appropriations increased the CIP budget by \$25.7 million.

### **Presentation**

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.

- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
<b>General Fund:</b>				
As reported - budgetary basis	\$ 1,841,233,787	\$ 582,989,330	\$ (1,320,557,130)	\$ (62,312,673)
Reconciling items:				
Cancellation of prior year encumbrances	(2,261,938)	-	-	(2,261,938)
Elimination of encumbrances outstanding	-	(25,357,214)	-	25,357,214
Unrealized gains (losses)	(2,115,115)	-	-	(2,115,115)
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	979,040	-	(979,040)	-
Public agency permits	-	1,010,570	1,010,570	-
Solid Waste tipping fees	-	1,377,550	1,377,550	-
Water Quality Protection loan	-	-	458,260	458,260
Activities not included in General Fund budget: *				
Auction Proceeds	1,075,753	1,075,753	-	-
Landlord Tenant Affairs	3,031,105	2,851,324	(479,090)	(299,309)
Common Ownership Community	168,977	146,771	(31,960)	(9,754)
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	612,754	-	(612,754)	-
Component Units - Transfer out	-	1,117,630,064	1,117,630,064	-
As reported - GAAP basis **	<u>\$ 1,842,724,363</u>	<u>\$ 1,681,724,148</u>	<u>\$ (202,183,530)</u>	<u>\$ (41,183,315)</u>

\* As a result of implementation of GASB34, these activities are accounted for in the General Fund for GAAP purposes beginning in FY02. The FY02 legally adopted General Fund budget did not include these activities; they are included in the General Fund budget beginning in FY03.

\*\* Revenues includes special item.

## B) **Deficit Fund Equity**

### **Nonmajor Governmental Funds:**

The \$2,435,000 deficit in the Grants Special Revenue Fund results from expenditures made against an annual State grant for bus purchases, originally obligated by the State during FY02. Subsequent to the expenditures being incurred by the County, the State de-obligated the funds and reprogrammed them to FY03. Since the State has appropriated and recognized this obligation during FY03, the County expects to receive full reimbursement under the grant in FY03, which will eliminate the fund deficit.

The \$405,253 deficit in the Water Quality Protection Special Revenue Fund results from a start-up loan from the General Fund in FY02, used to pay certain expenditures. The loan will be repaid in FY03 from fees to be charged to users.

**Internal Service Fund** – The \$3,527,528 unreserved deficit in the Liability and Property Coverage Self-Insurance Internal Service Fund is primarily caused by an unanticipated increase both in claims incurred and paid during the year, and in incurred but not reported claims as determined by the actuary. The deficit will be recovered by charging participating agencies higher insurance premium rates in future years.

### NOTE III. DETAILED NOTES ON ALL FUNDS

#### A) Cash and Investments

##### 1) Authorization and Balances

The Montgomery County reporting entity total cash and investments as of June 30, 2002, totaled \$3,324,466,567, of which \$2,924,565,140 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

<u>Statement of Net Asset Amounts:</u>	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	\$ 682,704,111	\$ 50,746,766	\$ 733,450,877
Cash	286,489	7,744,429	8,030,918
Cash with fiscal agents	68,962,874	28,333,043	97,295,917
Investments - cash equivalents	-	70,199,532	70,199,532
Investments	2,120,101,272	9,026,637	2,129,127,909
Restricted equity in pooled cash and investments	48,185,334	11,376,363	59,561,697
Restricted cash	-	139,356	139,356
Restricted cash with fiscal agents	-	8,072,429	8,072,429
Restricted investments - cash equivalents	-	90,140,966	90,140,966
Restricted investments	4,325,060	124,121,906	128,446,966
Total	<u>\$ 2,924,565,140</u>	<u>\$ 399,901,427</u>	<u>\$3,324,466,567</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 27,127,341	\$ 16,732,031	\$ 43,859,372
Investments	2,828,188,436	261,805,513	3,089,993,949
Cash on hand, fiscal agents, safe deposit escrow	69,249,363	121,363,883	190,613,246
Total	<u>\$ 2,924,565,140</u>	<u>\$ 399,901,427</u>	<u>\$3,324,466,567</u>

Primary government cash and investments reconciles to the basic financial statements as follows:

Government-wide	\$ 743,350,476
Fiduciary funds	<u>2,181,214,664</u>
Total	<u>\$ 2,924,565,140</u>

#### PRIMARY GOVERNMENT

**External Investment Pool** - The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, money market funds whose portfolio is operated consistent with the Securities and



Exchange Commission rule 2a-7, and the Maryland Local Government Investment Pool. The County requires that these money market funds invest only in obligations that a federal agency or instrumentality issues in accordance with an act of Congress and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities. The average maturity of the County's working capital portfolio is generally less than six months.

These same statutes require that securities underlying certificates of deposit and repurchase agreements have a market value of at least 102 percent of the cost of the investment. A third party custodian holds the collateral underlying all repurchase agreements. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name in a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits throughout the fiscal year were fully insured or collateralized. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The County's external investment pool is not subject to regulatory oversight by the SEC. However, the pool is subject to oversight by the County's investment committee.

Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares sold and redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of "2a-7 like". The fair value of U. S. Government securities, commercial paper and bankers' acceptances are provided by the County's custodian, which are based on various industry standard pricing sources. Fair value of investments in repurchase agreements are estimated based on consideration of composite quoted market prices, with comparable collateral or credit quality, as appropriate. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for FY02 related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) has been recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

A summary of investments is as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Rate Range</u>
Repurchase agreements	\$ 134,903,803	\$ 135,000,000	07/02	1.77 - 1.98%
U.S. Government securities	260,674,517	261,344,568	07/02 - 01/04	1.75 - 3.77%
Commercial paper	29,948,700	29,901,997	07/02 - 08/02	1.87 - 1.99%
Bankers' acceptances	190,997,176	190,107,969	07/02 - 10/02	1.77 - 2.15%
Money market funds	95,997,616	95,997,616	N/A	1.65 - 1.78%
Maryland Local Government Investment Pool	1,495,320	1,495,320	N/A	1.85%
Total	<u>\$ 714,017,132</u>	<u>\$ 713,847,470</u>		

During FY02, the County's external investment pool participated in the Maryland Local Government Investment Pool. The County's pension trust securities lending transactions, as described below, also participated in an external investment pool.

**Securities Lending Transactions** – Montgomery County Code and Maryland State statutes allow the Employees' Retirement System of Montgomery County, Maryland (MCERS) to participate in securities lending transactions, and MCERS has, via a Securities Lending Authorization Agreement, authorized The Northern Trust Company (Northern) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During FY02, Northern lent, at the direction of the Board of Investment Trustees, MCERS' securities and received cash (both United States and foreign currency), United States government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Northern did not have the ability to pledge or sell those collateral securities delivered unless there was a borrower default. Borrowers were required for each loan to deliver collateral amounting to 102 percent and 105 percent of the market value of the securities plus any accrued interest on the United States and foreign securities, respectively. MCERS did not impose any restriction during FY02 on the amount of loans that Northern made on its behalf. Northern indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no failures by any borrowers to return loaned securities or pay distributions thereon during FY02. Moreover, there were no losses during FY02 resulting from default of the borrowers or Northern. During FY02, MCERS and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral was invested at the direction of MCERS in the cash collateral fund of the Northern Core USA Collateral Section (the "Fund"). The Fund is accounted for on an amortized cost basis. The majority of the investments of the Fund consist of money market instruments which mature within one year. The Fund is not registered with the Securities and Exchange Commission but the Fund complies with a substantial majority of the requirements of SEC Rule 2a-7. Northern and consequently the investment vehicles it sponsors (including the Fund) are subject to the oversight of the Federal Reserve Board and the Illinois Commissioner of Banks and Real Estate. The Fund sponsor believes that the value of a participant's investment in the Fund determined by valuing the underlying assets at amortized cost is approximately equal to the value of the investment if the underlying assets are valued at fair value.

The average duration of such investment pool as of June 30, 2002, was 30 days and the average weighted maturity was 118 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2002, MCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for MCERS as of June 30, 2002, were \$236,777,984 and \$229,872,139, respectively. Cash collateral held, amounting to \$225,451,924, is included as an asset and corresponding liability in the accompanying financial statements at year-end.

#### **COMPONENT UNITS**

**MCPS** - The Annotated Code of Maryland requires that MCPS funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority or municipal corporation in the State of Maryland. Deposits throughout the year were fully insured or collateralized. The Annotated Code of Maryland authorizes MCPS to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an Act of Congress, in repurchase agreements collateralized at not less than 102 percent of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2a-7, or in any investment portfolio created under the Maryland Local Government Investment Pool. MCPS was in compliance with the above mentioned investment statutes throughout the fiscal year.

The MCPS Employee Benefit Plan Internal Service Fund is authorized to invest in domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, money market funds and pooled real estate investments. Fixed income investments are to be made primarily in issues rated "A" or better by Moody's and "A" or better by Standards and Poor's rating agencies.

**HOC** - Investments of HOC's General Fund, Public Fund, and Opportunity Housing Fund consist of those permitted by the investment policy including obligations of the U.S. government and federal agencies, bankers' acceptances, repurchase agreements, certificates of deposit, money market mutual funds, investments in the Maryland Local Government Investment Pool, commercial paper, and investments in the Montgomery County investment pool. Investments of the HOC Multi-Family Program Fund and the Single Family Mortgage Purchase Program Fund consist of those permitted by the respective bond trust indentures adopted by HOC providing for the issuance of bonds.

## 2) Credit and Market Risk

### Deposit Collateral:

	Carrying Amount	Bank Balance	Total Collateral **
<u>Primary Government:</u>			
Montgomery County *	\$ 27,127,341	\$ 43,512,726	\$ 43,512,726
<u>Component Units:</u>			
MCPS	6,627,155	18,472,083	18,472,083
MCC	1,147,954	2,452,001	2,452,001
MCRA	1,699,494	1,860,376	1,860,376
HOC	7,213,599	7,213,599	7,213,599
BUPI	43,829	280,847	280,847
Total Component Units	16,732,031	30,278,906	30,278,906
Total Reporting Entity	\$ 43,859,372	\$ 73,791,632	\$ 73,791,632

\* County deposits are the same as external investment pool deposits.

\*\* For those entities with fully collateralized deposits, total actual collateral equals or exceeds the amounts listed.

Deposits include bank accounts and non-negotiable certificates of deposit. The County's bank balances, and therefore the external investment pool's balances, were insured or collateralized with securities held by the County's agent in the County's name. Of the component unit bank balances, \$21,406,015 was insured or collateralized with securities held by the component units' agents in the component units' names, and \$8,872,891 was covered by collateral held by the pledging financial institution's trust department or agent in the component units' names.

**Investments by Category of Risk:**

<u>Primary Government:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Pension Investments:					
Short-term investments	\$ 45,970,757	\$ -	\$ -	\$ 45,970,757	\$ 45,970,757
U.S. Government securities	109,307,510	-	-	109,307,510	109,307,510
Asset-backed securities	19,125,586	-	-	19,125,586	19,125,586
Corporate bonds	154,286,566	-	-	154,286,566	154,286,566
Common and preferred stock:					
Not on securities loan	667,738,246	-	-	667,738,246	667,738,246
On securities loan for securities collateral	<u>1,685,818</u>	<u>-</u>	<u>-</u>	<u>1,685,818</u>	<u>1,685,818</u>
Subtotal	<u>998,114,483</u>	<u>-</u>	<u>-</u>	<u>998,114,483</u>	<u>998,114,483</u>
Other Investments:					
U.S. Government securities	7,030,362	-	-	7,030,362	7,030,362
Investment agreement	<u>4,325,060</u>	<u>-</u>	<u>-</u>	<u>4,325,060</u>	<u>4,325,060</u>
	<u>\$ 1,009,469,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,009,469,905</u>	<u>1,009,469,905</u>
Pooled investments held in:					
Montgomery County external investment pool *				703,762,104	703,762,104
Pension investments:					
Mutual and commingled funds				661,412,920	661,412,920
Securities lending short-term collateral investment pool				225,451,924	225,451,924
Investments held by broker dealers under securities loans with cash collateral:					
Common and preferred stock				119,191,165	119,191,165
Corporate bonds				31,151,382	31,151,382
Government obligations				68,542,575	68,542,575
Real estate				<u>9,206,461</u>	<u>9,206,461</u>
Subtotal Pension Investments				<u>1,114,956,427</u>	<u>1,114,956,427</u>
Total Investments				<u>\$ 2,828,188,436</u>	<u>\$ 2,828,188,436</u>
<u>Component Units:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 12,561,648	\$ 135,043	\$ 567,937	\$ 13,264,628	\$ 13,264,628
U.S. Government securities	137,912,053	6,459,856	5,220,369	149,592,278	149,593,551
Bankers' acceptances	-	17,443,856	-	17,443,856	17,474,017
Corporate stocks and bonds	<u>-</u>	<u>209,811</u>	<u>-</u>	<u>209,811</u>	<u>209,811</u>
	<u>\$ 150,473,701</u>	<u>\$ 24,248,566</u>	<u>\$ 5,788,306</u>	<u>180,510,573</u>	<u>180,542,007</u>
Pooled investments held in:					
Montgomery County external investment pool *				10,255,028	10,255,028
Maryland local government investment pool				37,846,158	37,846,158
Mutual funds				<u>33,193,754</u>	<u>33,193,754</u>
Total Investments				<u>\$ 261,805,513</u>	<u>\$ 261,836,947</u>

MCC short-term investments with original maturities of less than 90 days in U.S. Government securities and bankers' acceptances are carried at amortized cost.

\* The Primary Government and Component Units' participation in the Montgomery County external investment pool is presented as pooled investments and not categorized by credit risk because they are not evidenced by securities that exist in physical or book entry form. The County, as sponsor of the pool, has disclosed the risk categorization of external pool investments below.

<u>External Investment Pool:</u>	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Repurchase agreements	\$ 134,903,803	\$ -	\$ -	\$ 134,903,803	\$ 134,903,803
U.S. Government securities	260,674,517	-	-	260,674,517	260,674,517
Commercial paper	29,948,700	-	-	29,948,700	29,948,700
Bankers' acceptances	190,997,176	-	-	190,997,176	190,997,176
	<u>\$ 616,524,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>616,524,196</u>	<u>616,524,196</u>
Pooled investments held in:					
Maryland local government investment pool				1,495,320	1,495,320
Money market funds				95,997,616	95,997,616
Total Investments				<u>\$ 714,017,132</u>	<u>\$ 714,017,132</u>

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category "1" includes investment securities that are insured or registered or held by the entity or its agent in the entity's name. Category "2" includes uninsured and unregistered investment securities held by the counterparty's trust department or agent in the entity's name. Category "3" includes uninsured and unregistered investment securities held by a counterparty, or by its trust department or agent but not in the entity's name. Investment amounts included as Category "3" did not significantly fluctuate during the fiscal year. There were no unusual variations in form or amounts of investments or deposits, including insurance and location of collateral, throughout the fiscal year.

**Cash on hand, with fiscal agents, and in safe deposit escrow:**

	Primary Government	Component Units	Total Reporting Entity
Cash with fiscal agents	\$ 68,962,874	\$ 121,298,819	\$ 190,261,693
Petty cash/safe deposit escrow	286,489	65,064	351,553
	<u>\$ 69,249,363</u>	<u>\$ 121,363,883</u>	<u>\$ 190,613,246</u>

Primary Government cash with fiscal agents of \$32,548,889 is held for approximately one day in U.S. Government obligations that are not in the County's name or in bank accounts that are collateralized with U.S. Government obligations that are not in the County's name (Category 3), while \$36,413,985 is held in money market funds. Component units cash with fiscal agents of \$121,160,777 is held in money market mutual funds, while \$138,042 is held for approximately one day in U.S. Government obligations that are not in the component unit's name (Category 3).

### 3) External Investment Pool Condensed Financial Statements

The condensed financial statements of the County's external investment pool at June 30, 2002, are as follows:

#### Statement of Net Assets June 30, 2002

Assets:	
Investment in securities, at fair value	\$ 714,017,132
Cash	<u>27,127,341</u>
Total assets and net assets	<u>\$ 741,144,473</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 717,030,151
External participants' units outstanding (\$1.00 par)	<u>24,114,322</u>
Net assets	<u>\$ 741,144,473</u>
Participants net asset value, offering price and redemption price per share (\$741,144,473 / 743,217,303 units)	<u>\$ 1.00</u>

#### Statement of Changes in Net Assets Year Ended June 30, 2002

Investment Income *	\$ 18,485,143
Distributions to participants:	
Distributions paid and payable	(18,485,143)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 7,691,122,137
Redemption of units	<u>(7,688,147,146)</u>
Net increase in net assets and shares resulting from share transactions	<u>2,974,991</u>
Total increase in net assets	2,974,991
Net assets, July 1, 2001	<u>738,169,482</u>
Net assets, June 30, 2002	<u>\$ 741,144,473</u>

\* The pool has no expenses.

**B) Receivables**

**1) Accounts Receivable**

The total allowance for doubtful accounts at June 30, 2002, amounted to:

<u>Enterprise Funds:</u>	
Liquor	\$ 204,529
Solid Waste Disposal and Collection Activities	57,281
Parking Lot Districts	1,124,260
	<u>\$ 1,386,070</u>

**2) Due from/to Component Units**

The balances at June 30, 2002, were:

Due from Component Units / Due to Primary Government:

	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Component Units:						
Due to Primary Government:						
General	\$ 2,493,193	\$ 2,250,000	\$ 405,235	\$ 1,616,718	\$ -	\$ 6,765,146
Capital Projects	21,139,047	-	-	12,529,567	-	33,668,614
Solid Waste Disposal and Collection Activities Enterprise	60,289	308	-	309	1,773	62,679
Parking Lot Districts Enterprise	-	-	-	285,823	-	285,823
Nonmajor governmental	-	-	-	22,599,039	-	22,599,039
Internal Service	5,339	4,852	103,800	578,016	9,464	701,471
Fiduciary	-	-	11,344	56,709	-	68,053
	<u>\$ 23,697,868</u>	<u>\$ 2,255,160</u>	<u>\$ 520,379</u>	<u>\$ 37,666,181</u>	<u>\$ 11,237</u>	<u>\$ 64,150,825</u>
Total Due to Primary Government						

Due to Component Units / Due from Primary Government:

	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Component Units:						
Due from Primary Government:						
General	\$ 37,628,046	\$ 53,076	\$ -	\$ 573,364	\$ -	\$ 38,254,486
Capital Projects	-	2,222,981	-	296,904	-	2,519,885
Nonmajor governmental	2,276,365	12,807	-	353,537	63,927	2,706,636
Nonmajor Enterprise	452,867	-	-	-	-	452,867
Internal Service	55,923	-	-	-	-	55,923
	<u>\$ 40,413,201</u>	<u>\$ 2,288,864</u>	<u>\$ -</u>	<u>\$ 1,223,805</u>	<u>\$ 63,927</u>	<u>\$ 43,989,797</u>
Total Due from Primary Government						

In the nonmajor governmental funds, \$17,252,466 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years. Fund balance has been reserved for the remaining loans.



### 3) Due From Other Governments

The total amount due from other governments at June 30, 2002, was comprised of the following:

	General	Capital Projects	Solid Waste Disposal and Collection	Parking Lot Districts	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	\$ 43,920	\$ -	\$ 2,412	\$ -	\$ 11,308,162	\$ -	\$ -	\$ 11,354,494
State of Maryland	16,375,132	18,721,463	8,337	-	6,345,010	202,425	26,346	41,678,713
Other	1,209,756	466,797	99,156	205,032	208,689	19,481	2,698	2,211,609
Total	<u>\$ 17,628,808</u>	<u>\$ 19,188,260</u>	<u>\$ 109,905</u>	<u>\$ 205,032</u>	<u>\$ 17,861,861</u>	<u>\$ 221,906</u>	<u>\$ 29,044</u>	<u>\$ 55,244,816</u>

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**C) Capital Assets**

**PRIMARY GOVERNMENT**

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001 *	Increases	Decreases	Balance June 30, 2002
<b>Governmental Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 412,844,706	\$ 20,461,294	\$ 103,840	\$ 433,202,160
Construction in progress	342,303,527	151,107,601	86,756,984	406,654,144
Total Nondepreciable Capital Assets	755,148,233	171,568,895	86,860,824	839,856,304
Depreciable Capital Assets:				
Buildings	381,421,553	7,276,574	18,530,664	370,167,463
Improvements other than buildings	57,336,282	174,649	105,186	57,405,745
Furniture, fixtures, equipment and machinery	25,042,208	1,461,965	531,544	25,972,629
Automobiles and trucks	116,612,242	31,370,498	5,968,685	142,014,055
Infrastructure	1,136,804,461	91,387,246	-	1,228,191,707
Other assets	8,658,140	89,511	-	8,747,651
Total Capital Assets Being Depreciated	1,725,874,886	131,760,443	25,136,079	1,832,499,250
Less Accumulated Depreciation For:				
Buildings	163,320,743	10,748,436	10,840,928	163,228,251
Improvements other than buildings	17,444,149	2,095,550	38,240	19,501,459
Furniture, fixtures, equipment and machinery	16,783,310	1,988,984	522,018	18,250,276
Automobiles and trucks	63,261,620	9,605,581	5,598,718	67,268,483
Infrastructure	232,046,266	29,528,969	-	261,575,235
Other assets	1,177,187	869,762	-	2,046,949
Total Accumulated Depreciation	494,033,275	54,837,282	16,999,904	531,870,653
Total Depreciable Assets, Net	1,231,841,611	76,923,161	8,136,175	1,300,628,597
Governmental Activities Capital Assets, Net	\$ 1,986,989,844	\$ 248,492,056	\$ 94,996,999	\$ 2,140,484,901
<b>Business-Type Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 52,999,840	\$ -	\$ 166,473	\$ 52,833,367
Construction in progress	4,871,454	10,683,774	7,322,829	8,232,399
Total Nondepreciable Capital Assets	57,871,294	10,683,774	7,489,302	61,065,766
Depreciable Capital Assets:				
Buildings	120,765,358	15,911,439	16,348	136,660,449
Improvements other than buildings	98,656,096	5,052,219	-	103,708,315
Furniture, fixtures, equipment and machinery	17,172,265	1,832,434	1,979,006	17,025,693
Automobiles and trucks	3,156,933	86,067	-	3,243,000
Total Capital Assets Being Depreciated	239,750,652	22,882,159	1,995,354	260,637,457
Less Accumulated Depreciation For:				
Buildings	53,398,497	4,364,934	16,348	57,747,083
Improvements other than buildings	81,436,892	3,580,708	-	85,017,600
Furniture, fixtures, equipment and machinery	11,693,526	1,839,279	1,979,006	11,553,799
Automobiles and trucks	2,038,784	148,816	-	2,187,600
Total Accumulated Depreciation	148,567,699	9,933,737	1,995,354	156,506,082
Total Depreciable Assets, Net	91,182,953	12,948,422	-	104,131,375
Business-Type Activities Capital Assets, Net	\$ 149,054,247	\$ 23,632,196	\$ 7,489,302	\$ 165,197,141

\* As restated or reclassified

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:

General government	\$ 7,428,412
Public safety	6,160,892
Public works and transportation	35,076,685
Health and human services	3,666,955
Culture and recreation	985,891
Community development and housing	1,320,147
Environment	198,300
Total depreciation expense-governmental activities	<u>\$ 54,837,282</u>

Business-type activities:

Liquor	\$ 700,327
Solid waste disposal and collection	2,774,767
Parking lot districts	5,734,996
Permitting services	659,904
Community use of public facilities	63,743
Total depreciation expense-business-type activities	<u>\$ 9,933,737</u>

Construction  
Commitments

General Government	\$ 22,079,631
Public Safety	23,303,761
Public Works and Transportaion	31,298,912
Health and Human Services	42,117
Culture and Recreation	78,999,793
Community Development and Housing	11,309,460
Environment	1,459,008
Total	<u>\$ 168,492,682</u>

## COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,214,563,897 at June 30, 2002, are significant in relation to the total component unit capital assets.

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
<b>Governmental Activities</b>				
Nondepreciable capital assets:				
Land	\$ 56,426,166	\$ 8,871,118	\$ 76,872	\$ 65,220,412
Construction in progress	131,278,866	149,121,738	212,056,165	68,344,439
Total nondepreciable capital assets	<u>187,705,032</u>	<u>157,992,856</u>	<u>212,133,037</u>	<u>133,564,851</u>
Depreciable capital assets:				
Buildings and improvements	1,294,939,001	151,970,275	71,670,801	1,375,238,475
Land improvements	90,135,420	12,744,562	-	102,879,982
Machinery and equipment	103,189,605	12,021,196	5,667,564	109,543,237
Total depreciable capital assets	<u>1,488,264,026</u>	<u>176,736,033</u>	<u>77,338,365</u>	<u>1,587,661,694</u>
Less accumulated depreciation for:				-
Buildings and improvements	484,239,120	30,305,970	70,719,953	443,825,137
Land improvements	14,907,652	2,340,140	-	17,247,792
Machinery and equipment	48,325,217	9,240,739	5,606,430	51,959,526
Total accumulated depreciation	<u>547,471,989</u>	<u>41,886,849</u>	<u>76,326,383</u>	<u>513,032,455</u>
Total depreciable capital assets, net	<u>940,792,037</u>	<u>134,849,184</u>	<u>1,011,982</u>	<u>1,074,629,239</u>
Government activities capital assets, net	<u>\$1,128,497,069</u>	<u>\$292,842,040</u>	<u>\$213,145,019</u>	<u>\$ 1,208,194,090</u>
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
<b>Business-Type Activities</b>				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	\$ 17,831
Machinery and equipment	16,249,891	1,108,560	243,191	17,115,260
Total depreciable capital assets	<u>16,267,722</u>	<u>1,108,560</u>	<u>243,191</u>	<u>17,133,091</u>
Less accumulated depreciation for:				
Buildings	2,675	1,783	-	4,458
Machinery and equipment	9,702,581	1,095,492	39,247	10,758,826
Total accumulated depreciation	<u>9,705,256</u>	<u>1,097,275</u>	<u>39,247</u>	<u>10,763,284</u>
Business-type activities capital assets, net	<u>\$ 6,562,466</u>	<u>\$ 11,285</u>	<u>\$ 203,944</u>	<u>\$ 6,369,807</u>
Total MCPS government-wide capital assets				<u>\$ 1,214,563,897</u>

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$ 33,796,909
Special education	182,880
School administration	44,135
Student transportation	6,011,486
Operation of plant	161,030
Maintenance of plant	414,241
Administration	1,276,168
Total depreciation expense -governmental activities	<u>\$ 41,886,849</u>
Business-type activities:	
Food services	\$ 1,092,277
Real estate management	4,998
Total depreciation expense - business type activities	<u>\$ 1,097,275</u>

**D) Interfund Receivables, Payables, and Transfers**

The composition of interfund receivables and payables as of June 30, 2002, is as follows:

Due To Fund	Due From Fund				Total
	General	Non-major Governmental	Internal Service	Fiduciary	
General	\$ -	\$ -	\$ 1,462,035	\$ 2,348,938	\$ 3,810,973
Debt Service	31,245,591	1,303,298	-	-	32,548,889
Capital Projects	41,361,899	775,082	34,016	25,793	42,196,790
Liquor	-	-	60,550	42,265	102,815
Solid Waste Activities	-	-	19,919	16,503	36,422
Parking Lot Districts	-	-	7,556	6,857	14,413
Non-major Governmental	4,429,260	-	589,876	706,349	5,725,485
Non-major Enterprise	-	-	59,302	52,936	112,238
Internal Service	-	-	54,623	38,144	92,767
Fiduciary	-	-	761	159	920
Total	<u>\$ 77,036,750</u>	<u>\$ 2,078,380</u>	<u>\$ 2,288,638</u>	<u>\$ 3,237,944</u>	<u>\$ 84,641,712</u>

Included in the amounts presented above are the following short-term loans from the General Fund, that were or will be repaid during FY03:

- \$3.9 million to the Grants Special Revenue Funds to cover vendor payments prior to revenues being received from other government agencies;
- \$41.4 million to the Capital Projects Fund to cover construction payments, due to the delayed issuance of debt; and
- \$31.2 million to the Debt Service Fund relating to a FY03 debt service payment that must be remitted to the County's fiscal agent one working day prior to the debt service due date.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2002, consisted of the following:

	Transfers In Fund							Total
	General	Debt Service	Capital Projects	Parking Lot Districts	Non-major Governmental	Non-major Enterprise	Internal Service	
<b>Transfers Out Fund</b>								
General	\$ -	\$ 157,010,129	\$ 61,368,324	\$ 750,000	\$ 27,817,115	\$ 5,000	\$ 471,622	\$ 247,422,190
Debt Service	-	-	2,183,977	-	-	-	-	2,183,977
Capital Projects	-	25,254	-	-	821,354	-	-	846,608
Liquor	22,334,790	-	-	-	-	-	-	22,334,790
Solid Waste Activities	1,585,660	-	5,000	-	-	-	-	1,590,660
Parking Lot Districts	559,780	-	-	-	3,887,363	-	-	4,447,143
Non-major Governmental	11,360,460	15,935,571	3,972,230	-	354,385	-	26,869	31,649,515
Non-major Enterprise	8,897,970	-	-	-	-	-	-	8,897,970
Internal Service	500,000	-	-	-	-	-	-	500,000
<b>Total</b>	<b>\$ 45,238,660</b>	<b>\$ 172,970,954</b>	<b>\$ 67,529,531</b>	<b>\$ 750,000</b>	<b>\$ 32,880,217</b>	<b>\$ 5,000</b>	<b>\$ 498,491</b>	<b>\$ 319,872,853</b>

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.

Included in the amounts above is \$13,000,000 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

## E) Leases

### 1) Operating Leases

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$10,849,000 for FY02. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2003	\$ 9,297,000
2004	8,300,000
2005	7,012,000
2006	5,890,000
2007	5,264,000
2008 - 2012	22,427,000
2013 - 2016	5,116,000
Total	<u>\$ 63,306,000</u>

## 2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds (See Note III-F5), the County is obligated to lease the Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. The lease has a term of 22 years, ending on June 1, 2024.

The composition of capital leases receivable at June 30, 2002, is as follows:

Minimum lease payments receivable	\$ 62,376,001
Unearned lease income	<u>(24,496,001)</u>
Net investment in direct financing leases	<u>\$ 37,880,000</u>

At June 30, 2002, the minimum future lease payments due under the direct financing capital lease are as follows:

Fiscal Year Ending June 30	
2003	\$ 1,682,005
2004	1,682,005
2005	2,882,005
2006	2,948,005
2007	2,948,961
Later years	<u>50,233,020</u>
Total minimum lease payments	<u>\$ 62,376,001</u>

## 3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired through capital leases are as follows:

Land	\$ 13,449,033
Land improvements	16,059,541
Buildings	10,253,614
Furniture, fixtures, equipment and machinery	<u>276,223</u>
Subtotal	40,038,411
Less accumulated depreciation	<u>(10,830,863)</u>
Total asset value under capital leases	<u>\$ 29,207,548</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2002, are as follows:

Fiscal Year Ending June 30	
2003	\$ 2,541,492
2004	2,514,900
2005	2,834,659
2006	2,799,872
2007	2,769,420
2008-2012	11,550,618
2013-2017	3,695,528
Total minimum lease payments	<u>\$ 28,706,489</u>
Less: amount representing interest	(8,765,900)
Present value of minimum lease payments	<u><u>\$ 19,940,589</u></u>

**F) Long-Term Debt**

**PRIMARY GOVERNMENT**

**1) General Obligation Bonds Payable**

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

General obligation bonds that are reported in the enterprise funds (Bethesda Parking, Silver Spring Parking, and Solid Waste Disposal) are payable first from revenues of those funds.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and other financing uses, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.



On December 20, 2001, Montgomery County Government issued \$146,375,000 in general obligation refunding bonds dated November 15, 2001. These bonds were issued with a true interest cost of 4.51%, to advance refund \$143,000,000 of general obligation (GO) bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	10/1/91	1992-11	5.9747	\$ 70,000,000	2003	\$ 3,500,000
GO Bonds	10/1/92	1993-12	5.4740	115,000,000	2004-06	17,250,000
GO Bonds	3/15/96	1997-16	5.2946	120,000,000	2009-16	48,000,000
GO Bonds	4/15/97	1998-17	5.3226	115,000,000	2011-15	28,750,000
GO Bonds	1/1/00	2001-20	5.4850	<u>130,000,000</u>	2014-20	<u>45,500,000</u>
Total				<u>\$ 550,000,000</u>		<u>\$ 143,000,000</u>

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$11,734,082. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the refunded debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings (Economic Gain)
2002	\$ 3,949,031	\$ 2,115,573	\$ 1,833,458
2003	7,898,062	7,540,655	357,407
2004	11,294,812	9,348,755	1,946,057
2005	13,286,312	13,283,155	3,157
2006	12,972,937	12,972,205	732
2007	12,656,687	12,653,330	3,357
2008	6,748,563	6,744,815	3,748
2009	12,748,563	12,746,300	2,263
2010	12,433,563	12,430,088	3,475
2011	17,865,563	17,865,512	51
2012	17,226,500	17,225,537	963
2013	16,587,438	16,585,562	1,876
2014	22,448,375	22,445,369	3,006
2015	21,451,813	21,450,087	1,726
2016	14,705,250	14,700,206	5,044
2017	8,011,250	8,007,687	3,563
2018	7,637,500	7,632,788	4,712
2019	7,263,750	7,258,938	4,812
2020	6,890,000	6,886,138	3,862
Total	<u>\$ 234,075,969</u>	<u>\$ 229,892,700</u>	<u>\$ 4,183,269</u>

The present value of the above debt service savings (or economic gain) is \$2,831,159.

In January 1998, \$64,500,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were effected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2002, \$64,500,000 in general obligation bonds referred to above is considered to be defeased.

General obligation bond issues outstanding as of June 30, 2002, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2002	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2002
05/01/83	1984-03	7.0 - 9.0	\$ 50,000,000	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
06/01/84	1985-04	9.0 - 9.75	55,000,000	5,500,000	-	-	5,500,000
05/01/85	1986-05	7.6 - 8.6	65,000,000	9,750,000	-	-	9,750,000
04/01/86	1987-06	5.8 - 6.3	50,000,000	10,000,000	-	-	10,000,000
04/01/91	1992-11	6.3 - 6.75	60,000,000	3,000,000	-	-	3,000,000
10/01/91	1992-11	5.75 - 6.125	70,000,000	3,500,000	-	-	3,500,000
07/01/92 *	1993-10	2.75 - 5.8	273,038,054	177,708,054	-	-	177,708,054
10/01/92	1993-06	5.0 - 5.75	115,000,000	11,500,000	-	-	11,500,000
08/15/93 *	1994-11	2.5 - 5.0	60,005,000	56,210,000	-	-	56,210,000
10/01/93	1994-13	4.4 - 4.9	100,000,000	60,000,000	-	-	60,000,000
10/01/94	1995-08	5.2 - 6.125	100,000,000	35,000,000	-	-	35,000,000
03/15/96	1997-16	5.1 - 5.5	120,000,000	36,000,000	-	-	36,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	57,500,000	-	-	57,500,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	69,510,000	-	-	69,510,000
04/01/98	1999-18	4.875	115,000,000	92,000,000	-	-	92,000,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	102,000,000	-	-	102,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	71,500,000	-	-	71,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	133,000,000	-	-	133,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	146,375,000	8,543,583	(10,944,672)	143,973,911
02/01/02	2003-22	3.0 - 5.0	160,000,000	160,000,000	2,918,876	-	162,918,876
Total			<u>\$ 2,113,928,054</u>	<u>\$ 1,242,553,054</u>	<u>\$ 11,462,459</u>	<u>\$ (10,944,672)</u>	<u>\$ 1,243,070,841</u>

\* Issue represents refunding bonds.

\*\* GASB34 requires amortization of premiums and issue costs to occur prospectively, beginning with the year of implementation. As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY02 are as follows:

	Balance July 1, 2001	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2002
Governmental Activities:					
General County	\$ 155,352,722	\$ 59,756,660	\$ 12,909,032	\$ 23,202,500	\$ 178,997,850
Roads and Storm Drainage	319,067,804	78,698,135	28,745,609	44,055,000	324,965,330
Parks	34,412,782	10,874,288	3,361,490	4,767,500	37,158,080
Public Schools	597,427,551	137,667,788	47,068,629	60,240,000	627,786,710
Community College	32,658,577	10,279,491	2,343,847	6,140,000	34,454,221
Consolidated Fire Tax District	13,940,599	6,429,822	1,131,846	2,380,000	16,858,575
Mass Transit	22,923,529	2,668,816	3,276,663	2,215,000	20,100,682
Public Housing	1,852,408	-	253,035	-	1,599,373
	<u>1,177,635,972</u>	<u>306,375,000</u>	<u>99,090,151</u>	<u>143,000,000</u>	<u>1,241,920,821</u>
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	372,082	-	89,849	-	282,233
Parking Lot Districts:					
Bethesda Parking Lot District	500,000	-	250,000	-	250,000
Silver Spring Parking Lot District	200,000	-	100,000	-	100,000
	<u>1,072,082</u>	<u>-</u>	<u>439,849</u>	<u>-</u>	<u>632,233</u>
Total	<u>\$ 1,178,708,054</u>	<u>\$ 306,375,000</u>	<u>\$ 99,530,000</u>	<u>\$ 143,000,000</u>	<u>\$ 1,242,553,054</u>

For the general obligation bonds carried in the enterprise funds, a total of \$439,851 is classified as current liabilities. This total is comprised of \$89,851 in the Solid Waste Disposal and Collection Activities Fund, and \$350,000 in the Parking Lot Districts Fund (\$250,000 in Bethesda, and \$100,000 in Silver Spring).

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year	General Obligation Bond Requirements		
Ending June 30	Principal	Interest	Total
2003	\$ 107,105,000	\$ 61,042,750	\$ 168,147,750
2004	102,965,000	55,279,382	158,244,382
2005	101,835,000	49,885,325	151,720,325
2006	98,310,000	44,564,940	142,874,940
2007	95,560,000	39,572,296	135,132,296
2008-2012	378,278,054	159,369,278	537,647,332
2013-2017	252,560,000	59,571,006	312,131,006
2018-2022	105,940,000	12,268,176	118,208,176
Total	<u>\$ 1,242,553,054</u>	<u>\$481,553,153</u>	<u>\$ 1,724,106,207</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland, amended June 1, 2001, authorizes borrowing of funds and issuance of bonds to a maximum of 6% of the assessable basis of real property and 15% of the assessable basis of personal property and operating real property. The legal debt margin as of June 30, 2002, is \$3,915,736,537.

General obligation bonds authorized and unissued as of June 30, 2002, are as follows:

Purpose	Authority		Amount	Amount Unissued
	Chapter	Act		
General County, Parks, and Consolidated Fire Tax District	19	1998	\$ 113,400,000	\$ 27,890,000
	18	1999	33,500,000	33,500,000
	22	2000	78,300,000	78,300,000
	17	2001	35,200,000	35,200,000
			<u>260,400,000</u>	<u>174,890,000</u>
Roads and Storm Drainage	19	1998	77,000,000	5,410,000
	18	1999	30,000,000	30,000,000
	22	2000	77,600,000	77,600,000
	17	2001	10,630,000	10,630,000
			<u>195,230,000</u>	<u>123,640,000</u>
Public Schools and Community College	22	2000	82,900,000	6,013,000
	17	2001	159,755,000	159,755,000
			<u>242,655,000</u>	<u>165,768,000</u>
Mass Transit	18	1999	400,000	105,000
	22	2000	1,400,000	1,400,000
	17	2001	6,700,000	6,700,000
			<u>8,500,000</u>	<u>8,205,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
			<u>5,630,000</u>	<u>5,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$ 725,730,000</u>	<u>\$ 486,203,000</u>

In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

## 2) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to provide funds for the Bethesda Parking Lot District, the Silver Spring Parking Lot District, and the Solid Waste Disposal activities. These revenue bonds are secured by pledges of the respective funds.

On May 1, 2002, Montgomery County Government issued \$26,690,000 of revenue refunding bonds consisting of \$14,560,000 of Parking Revenue Refunding Bonds (Bethesda Parking Lot District), Series 2002 and \$12,130,000 of Parking Revenue Refunding Bonds (Silver Spring Parking Lot District), Series 2002. The Bonds were issued with a true interest cost of 3.1941% for the Bethesda district and 3.1398% for the Silver Spring district, for a current refunding of \$14,010,000 of Parking Revenue Refunding Bonds (Bethesda Parking Lot District) 1992 Series A Bonds and \$11,710,000 of Parking Revenue Refunding Bonds (Silver Spring Parking Lot District) 1992 Series A Bonds.

The reacquisition price exceeded the net carrying value of the old debt by \$645,203 and \$535,046 for the Bethesda and Silver Spring refundings, respectively. This amount is being netted against the new debt and amortized over the new debt's life.

### Bethesda Parking Lot District

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings (Economic Gain)
2002	\$ 431,296	\$ (40,651)	471,947
2003	2,757,592	2,691,204	66,388
2004	2,773,893	2,663,900	109,993
2005	2,782,393	2,675,700	106,693
2006	2,800,938	2,691,550	109,388
2007	2,806,875	2,698,875	108,000
2008	1,728,437	1,622,250	106,187
2009	1,747,812	1,638,000	109,812
Total	<u>\$ 17,829,236</u>	<u>\$ 16,640,828</u>	<u>\$ 1,188,408</u>

The present value of the above debt service savings (or economic gain) is \$1,108,238.

### Silver Spring Parking Lot District

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings (Economic Gain)
2002	\$ 359,904	\$ (34,758)	394,662
2003	2,479,807	2,434,128	45,679
2004	2,484,208	2,408,388	75,820
2005	2,497,008	2,417,588	79,420
2006	2,500,313	2,424,288	76,025
2007	2,517,812	2,438,437	79,375
2008	920,937	840,187	80,750
2009	935,000	855,937	79,063
Total	<u>\$ 14,694,989</u>	<u>\$ 13,784,195</u>	<u>\$ 910,794</u>

The present value of the above debt service savings (or economic gain) is \$853,910.

On June 1, 2002, Montgomery County Government issued \$26,000,000 of Parking Revenue Bonds (Bethesda Parking Lot District) Series 2002A. The bonds were issued with a true interest cost of 4.4231%.

Revenue bond issues outstanding as of June 30, 2002, are as follows:

	Dated			Originally	Balance	Unamortized	Unamortized	Carrying Value
	Date	Maturity	Interest Rate	Issued	June 30, 2002	Premium/ (Discount)	Deferred Difference	June 30, 2002
Solid Waste System 1993 Series A	03/15/93	1994-13	3.5 - 5.875%	50,680,000	34,145,000	\$ (241,073)	\$ -	33,903,927
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	14,560,000	14,560,000	297,929	(616,901)	14,241,028
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	12,130,000	303,918	(509,784)	11,924,134
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	26,000,000	(27,333)	-	25,972,667
Total				<u>\$ 103,370,000</u>	<u>\$ 86,835,000</u>	<u>\$ 333,441</u>	<u>\$ (1,126,685)</u>	<u>\$ 86,041,756</u>

Changes in revenue bond principal during FY02 are as follows:

	Balance July 1, 2001	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2002
Bethesda Parking Lot District	\$ 15,795,000	\$ 40,560,000	\$ 1,785,000	\$ 14,010,000	\$ 40,560,000
Silver Spring Parking Lot District	13,360,000	12,130,000	1,650,000	11,710,000	12,130,000
Solid Waste Disposal	<u>36,350,000</u>	<u>-</u>	<u>2,205,000</u>	<u>-</u>	<u>34,145,000</u>
Total	<u>\$ 65,505,000</u>	<u>\$ 52,690,000</u>	<u>\$ 5,640,000</u>	<u>\$ 25,720,000</u>	<u>\$ 86,835,000</u>

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2003	\$ 3,135,000	\$ 1,646,882	\$ 1,950,000	\$ 484,128
2004	3,190,000	1,509,278	2,020,000	388,388
2005	3,315,000	1,386,603	2,110,000	307,588
2006	3,430,000	1,282,103	2,180,000	244,288
2007	3,550,000	1,168,028	2,265,000	173,437
2008-2012	9,080,000	4,292,889	1,605,000	91,124
2013-2017	7,470,000	2,752,643	-	-
2018-2021	7,390,000	894,563	-	-
Total	<u>\$40,560,000</u>	<u>\$ 14,932,989</u>	<u>\$ 12,130,000</u>	<u>\$ 1,688,953</u>

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2003	2,320,000	1,973,966	7,405,000	4,104,976	11,509,976
2004	2,445,000	1,848,686	7,655,000	3,746,352	11,401,352
2005	2,580,000	1,714,211	8,005,000	3,408,402	11,413,402
2006	2,725,000	1,569,731	8,335,000	3,096,122	11,431,122
2007	2,880,000	1,414,406	8,695,000	2,755,871	11,450,871
2008-2012	17,140,000	4,326,938	27,825,000	8,710,951	36,535,951
2013-2017	4,055,000	238,232	11,525,000	2,990,875	14,515,875
2018-2022	-	-	7,390,000	894,563	8,284,563
Total	<u>\$34,145,000</u>	<u>\$ 13,086,170</u>	<u>\$ 86,835,000</u>	<u>\$ 29,708,112</u>	<u>\$ 116,543,112</u>

Revenue bonds authorized and unissued as of June 30, 2002, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 42,088,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	<u>56,935,000</u>	<u>6,255,000</u>
Total			<u>\$143,098,000</u>	<u>\$ 57,343,000</u>

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 728,302	\$ 962,939	\$ -
Debt Service Account - Used to pay debt service on bonds	424,411	214,864	2,972
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	-	-	4,325,060
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,158,127
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	20,840,057
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	15,668,400
Total	<u>\$ 2,652,713</u>	<u>\$ 2,677,803</u>	<u>\$ 42,994,616</u>

The remaining balance of Parking Lot District Activities restricted assets of \$4,185,262 represents unspent bond proceeds on hand at year-end.

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

### 3) **Bond Anticipation Notes Payable**

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY02 are as follows:

	Balance July 1, 2001	BANs Issued	BANs Retired	BANs Refinanced	Balance June 30, 2002
BAN Series 1995 -H	\$ 20,000,000	\$ -	\$ 20,000,000	\$ -	\$ -
BAN Series 1995 - I	105,000,000	-	105,000,000	-	-
BAN Series 1995 - J	-	75,000,000	35,000,000	40,000,000	-
BAN Series 1995 - K	-	85,000,000	-	85,000,000	-
BAN Series 2002	-	125,000,000	-	-	125,000,000
Total	<u>\$ 125,000,000</u>	<u>\$ 285,000,000</u>	<u>\$ 160,000,000</u>	<u>\$ 125,000,000</u>	<u>\$ 125,000,000</u>

BAN Notes, Series 1995-H, totaling \$20,000,000; BAN Notes, Series 1995-I, totaling \$105,000,000; and a portion of BAN Notes, Series 1995-J, totaling \$35,000,000; were retired on March 6 and March 8, 2002, in the amounts of \$137,000,000 and \$23,000,000, respectively, with proceeds from general obligation bonds dated February 1, 2002. The remaining portion of BAN Notes, Series 1995-J, totaling \$40,000,000 and Series 1995-K, totaling \$85,000,000 were refinanced on June 26, 2002, with the proceeds of Commercial Paper Bond Anticipation Notes, 2002 Series.

The interest rate changes based on market conditions. During FY02, the rate of interest varied from 1 to 2.75 percent. Interest earned on BAN proceeds totaled \$1,354,805 during FY02, which was accounted for in the Debt Service Fund.



BANs amounting to \$125 million were issued during FY02 at varying maturities to a maximum of 270 days, under a program which originally matured on November 2, 1998, was extended, and expired on June 26, 2002, due to the issuance of the County's Commercial Paper Bond Anticipation Notes, 2002. BANs outstanding at July 1, 2001, in the amount of \$125 million under the County's Consolidated Commercial Paper Bond Anticipations Notes, 1995 Series, were refinanced with the new issuance, authority for which was adopted on June 11, 2002. The County has reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County intends to issue long-term general obligation bonds in FY03, and intends to use the proceeds first to replace a portion of the \$125 million in BANs outstanding at June 30, 2002. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2002, with Toronto-Dominion Bank, acting through its Houston agency, under which the County may borrow, on a revolving basis, up to \$200 million to pay the principal on the notes, and up to \$14.8 million to pay the interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts have been borrowed against this line of credit. Because the County has entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

Per Resolution No. 14-1307 dated June 11, 2002, the amount of BANs authorized and unissued as of June 30, 2002, is \$89,795,000.

#### **4) Certificates of Participation**

In June 2001, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated June 1, 2001, in the amount of \$54.66 million. The certificates represent proportionate interests in a Conditional Purchase Agreement (CPA) between the County, as purchaser, and First Union National Bank, as seller, for the acquisition of certain equipment to be used in the public safety and public transportation programs of the County. The CPA requires the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County may terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation is available if sufficient funds are not appropriated for any fiscal year. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4 to 4.5 percent and have a maturity schedule as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2003	11,960,000	1,813,688	13,773,688
2004	12,355,000	1,335,287	13,690,287
2005	9,435,000	841,087	10,276,087
2006	9,780,000	440,100	10,220,100
Total	\$ 43,530,000	\$ 4,430,162	\$ 47,960,162

**5) Lease Revenue Bonds**

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority ("WMATA"). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. WMATA's obligation to make payments under the leases are payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

Lease Revenue Bonds outstanding as of June 30, 2002, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2002	Unamortized Premium	Carrying Value June 30, 2002
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 37,880,000	\$ 157,693	\$ 38,037,693

Lease Revenue Bonds debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bonds Requirements		
	Principal	Interest	Total
2003	\$ -	\$ 1,682,005	\$ 1,682,005
2004	-	1,682,005	1,682,005
2005	1,200,000	1,682,005	2,882,005
2006	1,305,000	1,643,005	2,948,005
2007	1,350,000	1,598,961	2,948,961
2008-2012	7,550,000	7,192,778	14,742,778
2013-2017	9,330,000	5,474,972	14,804,972
2018-2022	11,800,000	3,142,270	14,942,270
2023-2024	5,345,000	398,000	5,743,000
Total	\$ 37,880,000	\$ 24,496,001	\$ 62,376,001

**6) State MICRF Loan**

In September 1998, the County entered into a \$1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds have been reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, \$150,000 of the loan was converted to a State grant during FY02. Although it is expected that the County's loan with MICRF will be repaid by loan repayments received from the private user, the County's loan is a full faith and credit obligation of the County. The principal amount payable at June 30, 2002, for this loan is \$1,408,951.

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**7) Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>7/1/01 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/02 Balance</u>	<u>Due within FY03</u>
<b>Governmental Activities</b>					
Bonds and notes payable:					
General obligation bonds	\$ 1,177,635,972	\$ 306,375,000	\$ (242,090,151)	\$ 1,241,920,821	\$ 106,665,149
Bond anticipation notes	125,000,000	285,000,000	(285,000,000)	125,000,000	125,000,000
Equipment notes payable	31,925	-	(31,925)	-	-
Lease revenue bonds	-	37,880,000	-	37,880,000	-
State MICRF loan	1,625,240	-	(216,289)	1,408,951	68,231
Subtotal	1,304,293,137	629,255,000	(527,338,365)	1,406,209,772	231,733,380
Add remaining original issue premium	-	12,357,893	(737,741)	11,620,152	-
Less deferred amount on refundings	-	(11,734,082)	789,410	(10,944,672)	-
Total Bonds and Notes Payable	1,304,293,137	629,878,811	(527,286,696)	1,406,885,252	231,733,380
Other Liabilities:					
Certificates of participation	54,660,000	-	(11,130,000)	43,530,000	11,960,000
Compensated absences	40,062,436	34,180,810	(30,112,834)	44,130,412	33,097,809
Capital leases	21,267,866	-	(1,327,277)	19,940,589	1,360,000
Claims and judgments	500,000	2,650,000	-	3,150,000	2,650,000
Total Other Liabilities	116,490,302	36,830,810	(42,570,111)	110,751,001	49,067,809
Governmental Activities Long-Term Liabilities	\$ 1,420,783,439	\$ 666,709,621	\$ (569,856,807)	\$ 1,517,636,253	\$ 280,801,189
<b>Business-Type Activities</b>					
General Obligation Bonds:					
Bethesda PLD Enterprise Fund	\$ 500,000	\$ -	\$ (250,000)	\$ 250,000	\$ 250,000
Silver Spring PLD Enterprise Fund	200,000	-	(100,000)	100,000	100,000
Solid Waste Disposal Enterprise Fund	372,082	-	(89,849)	282,233	89,851
Revenue Bonds:					
Parking revenue refunding bonds - 1992	29,155,000	-	(29,155,000)	-	-
Parking revenue refunding bonds - 2002	-	26,690,000	-	26,690,000	4,075,000
Parking revenue bonds - 2002	-	26,000,000	-	26,000,000	1,010,000
Solid waste disposal revenue bonds	36,350,000	-	(2,205,000)	34,145,000	2,320,000
Subtotal	66,577,082	52,690,000	(31,799,849)	87,467,233	7,844,851
Add remaining original issue premium	-	630,575	(28,728)	601,847	-
Less remaining original issue discount	(384,652)	(27,537)	143,783	(268,406)	-
Less deferred amount on refundings	-	(1,180,249)	53,564	(1,126,685)	-
Total Bonds and Notes Payable	66,192,430	52,112,789	(31,631,230)	86,673,989	7,844,851
Other Liabilities:					
Compensated absences	2,922,509	191,375	-	3,113,884	2,335,413
Notes payable	800,000	-	-	800,000	-
Landfill closure costs	24,532,359	155,541	-	24,687,900	1,452,000
Total Other Liabilities	28,254,868	346,916	-	28,601,784	3,787,413
Business-Type Activities Long-Term Liabilities	\$ 94,447,298	\$ 52,459,705	\$ (31,631,230)	\$ 115,275,773	\$ 11,632,264

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$1,047,240 (\$785,430 due within one year, and \$261,810 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

In the proprietary fund financial statements, the current portion of unamortized premiums, discounts, and deferred amount on refundings has been netted against the current portion of the related debt for reporting purposes. Such amounts have been reclassified to noncurrent liabilities due in more than one year in the government-wide financial statements.

**8) Conduit Debt Obligations**

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2002, there were 40 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 32 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2002, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$225,177,000. The principal amount payable at June 30, 2002, for bonds issued after July 1, 1996, totaled \$114,068,333.

**9) Special Taxing Districts**

Prior to FY02, two development districts had been created in the County. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas with high priority for new development or redevelopment. During FY02, the County was petitioned by property owners to form three new development districts in the Clarksburg area.

Pursuant to Chapter 14, special taxes and/or assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued \$2.41 million in special obligation bonds on behalf of the Kingsview Village Center Development District. Special taxes and assessment were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds on behalf of the West Germantown Development District. The County issued \$11,600,000 of Senior Series 2002A bonds and \$4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt.

## COMPONENT UNITS

At June 30, 2002, HOC's noncurrent liabilities are comprised of the following:

Revenue bonds payable	\$ 612,475,353
Capital leases payable	19,982,486
Notes payable	<u>92,300,566</u>
Total	<u>\$ 724,758,405</u>

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

Purpose	
Multi-Family Mortgage Purchase Program Fund	\$ 314,736,124
Single Family Mortgage Purchase Program Fund	<u>297,739,229</u>
Total	<u>\$ 612,475,353</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 5.2 to 11.25 percent and 4.99 to 8.875 percent, respectively, as of June 30, 2002.

Pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
2003	\$ 340,000	\$ 1,281,014	\$ 1,621,014
2004	560,000	1,253,600	1,813,600
2005	595,000	1,218,884	1,813,884
2006	625,000	1,186,649	1,811,649
2007	660,000	1,152,304	1,812,304
2008-2012	3,945,000	5,098,352	9,043,352
2013-2017	4,020,000	3,820,104	7,840,104
2018-2022	5,935,000	2,290,810	8,225,810
2023-2027	795,000	1,441,970	2,236,970
2028-2029	5,430,000	274,213	5,704,213
Total	<u>\$ 22,905,000</u>	<u>\$ 19,017,900</u>	<u>\$ 41,922,900</u>

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
2003	\$ 41,442,793	\$ 30,443,579	\$ 71,886,372
2004	11,639,589	31,065,719	42,705,308
2005	29,728,962	30,344,077	60,073,039
2006	23,293,260	29,565,117	52,858,377
2007	13,527,483	29,902,215	43,429,698
2008-2012	74,172,191	135,298,219	209,470,410
2013-2017	71,548,720	117,907,571	189,456,291
2018-2022	78,635,993	89,960,811	168,596,804
2023-2027	73,914,657	91,748,797	165,663,454
2028-2032	150,779,895	45,286,995	196,066,890
2033-2037	33,130,000	12,751,218	45,881,218
2038-2042	4,625,000	4,098,021	8,723,021
2043-2047	11,705,000	1,062,285	12,767,285
Unamortized Bond Discount	(5,668,190)	-	(5,668,190)
Total	<u>\$612,475,353</u>	<u>\$649,434,624</u>	<u>\$1,261,909,977</u>

Changes in the HOC revenue bonds during FY02 are as follows:

Purpose	Balance July 1, 2001	Bonds Issued *	Bonds Retired	Balance June 30, 2002
Multi-Family Mortgage Purchase Program Fund	\$ 316,742,590	\$ 5,728,534	\$ 7,735,000	\$ 314,736,124
Single Family Mortgage Purchase Program Fund	321,134,602	21,284,925	44,680,288	297,739,239
Total	<u>\$ 637,877,192</u>	<u>\$ 27,013,459</u>	<u>\$ 52,415,288</u>	<u>\$ 612,475,363</u>

\* Includes accretions and bond discounts. Amount also includes multi-family refunding bonds of \$24,315,000 and is presented net of bonds refunded amounting to \$23,905,000.

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2001	\$ 377,377,661
Redemptions during the year	(102,408,376)
New issuances during the year	65,000,000
Bonds outstanding, June 30, 2002	<u>\$ 339,969,285</u>

**G) Segment Information**

The County has issued revenue bonds to finance activities relating to solid waste disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Disposal and Collection Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2002, is presented below:

**Condensed Statements of Net Assets**

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
<b>ASSETS</b>			
Current assets	\$ 44,824,423	\$ 6,116,227	\$ 21,177,521
Due from component units	62,679	-	285,823
Other assets	43,939,269	2,816,946	7,477,294
Capital assets	<u>36,327,611</u>	<u>42,873,630</u>	<u>71,324,667</u>
Total Assets	<u>125,153,982</u>	<u>51,806,803</u>	<u>100,265,305</u>
<b>LIABILITIES</b>			
Current liabilities	10,179,600	2,901,016	6,770,717
Due to other funds	33,419	7,642	5,616
Long-term liabilities	<u>55,923,914</u>	<u>10,054,334</u>	<u>37,193,100</u>
Total Liabilities	<u>66,136,933</u>	<u>12,962,992</u>	<u>43,969,433</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,141,451	30,849,497	30,860,971
Restricted for debt service	42,994,616	2,677,803	6,837,975
Unrestricted	<u>13,880,982</u>	<u>5,316,511</u>	<u>18,596,926</u>
Total Net Assets	<u>\$ 59,017,049</u>	<u>\$ 38,843,811</u>	<u>\$ 56,295,872</u>



**Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets**

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
<b>OPERATING REVENUES (EXPENSES):</b>			
Operating Revenues:			
Charges for services	\$ 77,924,839	\$ 4,491,618	\$ 7,448,902
Licenses and permits	7,660	-	-
Fines and penalties	-	1,543,488	3,977,908
Total Operating Revenues (pledged against bonds)	77,932,499	6,035,106	11,426,810
Depreciation and amortization expense	2,856,032	2,473,151	3,041,449
Other operating expenses	78,748,230	5,752,439	4,436,394
Operating Income (Loss)	(3,671,763)	(2,190,484)	3,948,967
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property taxes	-	3,055,911	3,562,543
Gain on disposal of capital assets	46,080	-	343,528
Investment income	2,693,124	195,125	216,891
Interest expense	(2,150,065)	(821,855)	(835,386)
Other revenue	305,334	45,354	896,212
<b>SPECIAL ITEM - loss from settlement of interfund receivable</b>	-	(1,966,187)	-
<b>TRANSFERS:</b>			
Transfers in	-	750,000	-
Transfers out	(1,436,490)	(613,350)	(2,956,010)
Change in Net Assets	(4,213,780)	(1,545,486)	5,176,745
Beginning Net Assets	63,230,829	40,389,297	51,119,127
Ending Net Assets	\$ 59,017,049	\$ 38,843,811	\$ 56,295,872

**Condensed Statements of Cash Flows**

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 7,174,332	\$ (116,212)	\$ 8,482,683
Noncapital financing activities	(1,436,490)	3,001,028	635,996
Capital and related financing activities	(6,769,274)	(4,702,196)	3,742,584
Investing activities	2,795,756	195,125	216,891
Net Increase (Decrease)	1,764,324	(1,622,255)	13,078,154
Beginning Cash and Cash Equivalents	78,667,191	8,101,580	13,070,422
Ending Cash and Cash Equivalents	\$ 80,431,515	\$ 6,479,325	\$ 26,148,576

## H) Fund Equity

### 1) Federal and State Grant Programs

Included in the financial statements are expenditures and revenues related to Federal and State grant programs for which the County is the grantee. The reserve for encumbrances in the governmental fund types does not include \$3,279,766 of encumbrances related to these grants, since appropriation and spending on such grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available. The County believes that inclusion of such encumbrances as reserved fund balance would distort the unreserved fund balance.

### 2) Restatement of Beginning Fund Equities

As described in Note 1-D, effective July 1, 2001, the County implemented GASB34, as amended by GASB37. As a result of this implementation, beginning fund equities have been restated as follows:

	Major fund	Non-major governmental			Fiduciary		
		Special			POEB **	Private	
	General	Revenue	Permanent	Total	Trust	Purpose Trust	Agency
Net assets/fund balance at June 30, 2001	\$ 264,045,500	\$ 153,706,781	\$ -	\$ 153,706,781	\$ 1,861,590,460	\$ -	\$ -
Fund reclassifications from:							
Special Revenue	612,932	(612,932)	-	(612,932)	-	-	-
Expendable Trust	-	5,743,594	-	5,743,594	199,623,317	2,189,321	276,766
Non-expendable Trust	-	-	7,345,050	7,345,050	-	-	-
Subtotal	612,932	5,130,662	7,345,050	12,475,712	199,623,317	2,189,321	276,766
Resulting change in basis of accounting	(1,110,423)	(52,801)	83,838	31,037	724,547	-	(276,766)
Liability reclassifications *	(3,106,570)	-	-	-	-	(250,000)	-
Subtotal	(4,216,993)	(52,801)	83,838	31,037	724,547	(250,000)	(276,766)
Net assets/fund balance at July 1, 2001, as restated	\$ 260,441,439	\$ 158,784,642	\$ 7,428,888	\$ 166,213,530	\$ 2,061,938,324	\$ 1,939,321	\$ -

\* Amounts represent interfund payables which were previously reported in the General Long-Term Debt Account Group.

\*\* Pension and Other Employee Benefits

In addition to fund reclassifications that impacted beginning net assets, the following types of fund reclassifications were also made:

- Certain agency funds were merged into the General Fund, Capital Projects Fund, and Internal Service funds, and
- Certain funds with similar activities, previously reported individually, have been combined for external reporting purposes - Enterprise funds (Solid Waste and Parking Lot Districts), Special Revenue funds (Urban Districts, Noise Abatement Districts), and certain miscellaneous Agency funds.

**D) Significant Transactions with Discretely Presented Component Units**

**1) Operating and Capital Funding**

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2002:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	\$1,031,003,934	\$ 17,355,874	\$1,048,359,808	\$ 99,572,575	\$1,147,932,383
MCC	57,818,000	6,777,126	64,595,126	6,984,565	71,579,691
HOC	4,134,400	540,730	4,675,130	-	4,675,130
Total	<u>\$1,092,956,334</u>	<u>\$ 24,673,730</u>	<u>\$1,117,630,064</u>	<u>\$ 106,557,140</u>	<u>\$1,224,187,204</u>

\* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

**2) Other Transactions**

BUPI charges for services revenue includes \$2,131,050 earned under contracts with the County. For capital leases with MCRA, see Note III-E2. For mortgages receivable due from HOC, see Note III-B2.

**J) Extraordinary Gains and Losses and Special Items**

**1) Extraordinary Items - Internal Service Funds**

**Premium Stabilization Reserve Distribution** – During FY02, the County terminated its relationship with the administrator of its long-term disability plan. As a result of that termination, the administrator refunded to the County \$3,358,309, which had been accumulated by the administrator as a premium stabilization reserve.

**Insurance Demutualization Distribution** – During FY02, the County's administrator for its life insurance program changed its corporate structure and the County was entitled to a stock distribution. The County could not legally take receipt of the stock, so it was held and immediately sold by a trustee. Proceeds from the sale amounted to \$641,871.

**2) Special Item – Extinguishment of Interfund Liability**

On June 25, 1999, the County disposed of land owned by the Silver Spring Parking Lot District Enterprise Fund, through a lease with a third party, whose plans for this Urban Renewal Area (URA) met the County's specific development objectives, and the specific objectives of the URA. As a result of this lease, and pursuant to Section 60-2 of the Montgomery County Code, at the date of the transfer the County incurred an obligation to reimburse the Silver Spring Parking Lot District Enterprise Fund for the estimated fair market value of the property, which was valued at \$3,106,570. The obligation was satisfied during FY02 by a transfer of governmental capital assets with a net book value of \$1,140,383, and a fair value of approximately \$3.1 million. In the General Fund, a gain of \$3,106,570 was recognized since the payable was not settled with expendable available resources. In the Silver Spring Parking Lot

District Enterprise Fund, a loss of \$1,966,187 was recognized since the receivable was settled by transfer of an asset with a net book value of less than the receivable balance.

#### **NOTE IV. OTHER INFORMATION**

##### **A) Risk Management**

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include the Montgomery County Public Schools, the Montgomery Community College, the Maryland-National Capital Park and Planning Commission, the City of Rockville, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Bethesda Urban Partnership, Inc., and the Village of Drummond. The liability for claims with respect to all participants transfers to the self-insurance fund, except for the Maryland-National Capital Park and Planning Commission which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, dental, and life insurance. The Washington Suburban Transit Commission, the Bethesda Urban Partnership, Inc., Montgomery Community Television, the Strathmore Hall Foundation, Inc., and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in either fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY02 and FY01 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2000	\$ 41,210,000	\$ 4,975,119
Claims and changes in estimates	18,442,892	63,465,536
Claim payments *	<u>(15,634,892)</u>	<u>(61,748,144)</u>
Balance June 30, 2001	44,018,000	6,692,511
Claims and changes in estimates	23,045,585	74,555,694
Claim payments *	<u>(17,038,585)</u>	<u>(72,950,251)</u>
Balance June 30, 2002 **	<u>\$ 50,025,000</u>	<u>\$ 8,297,954</u>

\* Includes non-monetary settlements.

\*\* Includes incurred but not reported claims of \$19,443,000 and \$8,297,954, for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

## B) Significant Commitments and Contingencies

### 1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at \$52,747,000, which has been fully accrued through June 30, 2002. Of the total amount accrued, \$27,185,100 in actual costs has been paid out in prior years, and \$874,000 was paid in FY02, resulting in a net liability of \$24,687,900 at June 30, 2002. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,452,000 and \$23,235,900 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

### 2) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$16,150,000. In accordance with GAAP, \$3,150,000 of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on certain claims appears to be probable.

### 3) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2002, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

### 4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2002, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 206,424	\$ -	\$ 6,191,670	\$ 6,398,094
Solid Waste Disposal and Collection:				
Disposal operations	5,200,853	1,046,485	-	6,247,338
Collection operations	1,440	-	-	1,440
Parking Lot Districts:				
Silver Spring	63,444	1,384,426	-	1,447,870
Bethesda	204,191	2,283,301	-	2,487,492
Wheaton	15,934	366,468	-	382,402
Montgomery Hills	16,813	-	-	16,813
Subtotal	<u>5,709,099</u>	<u>5,080,680</u>	<u>6,191,670</u>	<u>16,981,449</u>
Nonmajor Funds:				
Permitting Services	86,703	-	-	86,703
Community Use of Public Facilities	11,160	-	-	11,160
Subtotal	<u>97,863</u>	<u>-</u>	<u>-</u>	<u>97,863</u>
Total Enterprise Funds	<u>5,806,962</u>	<u>5,080,680</u>	<u>6,191,670</u>	<u>17,079,312</u>
Internal Service Funds:				
Motor Pool	2,429,509	-	6,074,179	8,503,688
Central Duplicating	49,039	-	-	49,039
Liability and Property Coverage Self-Insurance	313,179	-	-	313,179
Employee Health Benefits Self-Insurance	128,724	-	-	128,724
Total Internal Service Funds	<u>2,920,451</u>	<u>-</u>	<u>6,074,179</u>	<u>8,994,630</u>
Total Proprietary Funds	<u>\$ 8,727,413</u>	<u>\$5,080,680</u>	<u>\$ 12,265,849</u>	<u>\$ 26,073,942</u>

As of June 30, 2002, the County has \$1.1 million in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

**C) Subsequent Events**

On June 25, 2002, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional \$145,900,000, effective October 29, 2002.

On September 30, 2002, the Maryland Economic Development Corporation (MEDCO) issued \$26,540,000 in lease revenue bonds, the proceeds of which will fund construction of the Town Square Parking Garage Project in Silver Spring. The County will make lease payments to MEDCO, subject to appropriation, sufficient to pay the annual debt service on the lease revenue bonds. On November 7, 2002, in a similar transaction, MEDCO issued an additional \$32,560,000 in lease revenue bonds, the proceeds of which will primarily fund construction of the Wayne Avenue Parking Garage Project in Silver Spring. These series of bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof.

Commercial paper bond anticipation notes (BANs) amounting to \$75,000,000 were issued on December 9, 2002.

The County issued \$93,595,000 in general obligation refunding bonds on November 15, 2002, the proceeds of which, along with premium and accrued interest, will refund \$95,750,000 in outstanding general obligation bonds. After adjustments, the true interest cost to the County was 3.26 percent and savings of almost \$4.4 million will be realized, primarily in fiscal years 2003 – 2006.

On December 17, 2002, the County issued \$42,885,000 in variable rate Economic Development Revenue Bonds (conduit debt obligations) on behalf of the Institute of Genomic Research (TIGR). The bonds are secured by the facilities financed and are payable from the revenues of monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof.

**D) Joint Ventures**

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no “Investment in Joint Ventures” is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

**Maryland-National Capital Park and Planning Commission (M-NCPPC)**

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George’s Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties’ oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2002, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$172,669,454, of which \$17,049,454 was self-supporting. Of the total amount payable, \$33,111,826 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County's contingent liability for non self-supporting M-NCPPC debt at June 30, 2002, is \$33,200,000, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

**Washington Suburban Sanitary Commission (WSSC)**

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2002, WSSC had outstanding notes payable and bonds payable in the amount of \$1,579,668,897, of which \$1,570,978,897 was self-supporting. Of the total amount payable, \$179,636,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland (1997 Replacement Volume and 1998 Cumulative Supplement), the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2002, all WSSC debt relating to the County is self-supporting.

**Washington Suburban Transit Commission (WSTC)**

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$56,284 to WSTC during FY02. The FY02 WSTC Annual Financial Report was not available when this report was published.

**Washington Metropolitan Area Transit Authority (WMATA)**

WMATA was created in 1967 by interstate compact among the states of Maryland and Virginia and the District of Columbia. WMATA's primary function is to plan, develop, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.



Montgomery County is committed to participation in WMATA and its regional Metro Rapid Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rapid Rail System. The County's share of the cost of construction of the Metro Rapid Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover 100 percent of the combined operating deficit of WMATA and County Ride-On operations assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues. The 40 percent criteria will revert to 50 percent effective in FY05 unless permanently set at 40 percent by the State legislature prior to FY05.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY02, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 26,285,717
Rail operating subsidy	25,207,828
ADA Service	9,612,760
Metrobus and Metrorail capital replacement	7,668,428
Debt service on WMATA revenue bonds	4,867,452
Local bus program	21,991,976
Total	<u>\$ 95,634,161</u>

At June 30, 2002, WMATA had outstanding debt of \$231,388,000, of which \$15,415,000 represented debt due within one year. All of this debt is payable from resources of WMATA.

#### **Metropolitan Washington Council of Governments (COG)**

COG is a multi-governmental organization in which local governments unite to solve area-wide problems. The County is a participant in COG along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted chairs on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 20 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY02 membership dues amounting to \$593,421.

#### **Northeast Maryland Waste Disposal Authority (NEMWDA)**

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following seven member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds to fund the construction of the Montgomery County Resource Recovery Project (Project). At June 30, 2002, NEMWDA had outstanding bonds payable in the amount of \$305,145,000, of which \$13,145,000 represented debt due within one year. All of these outstanding bonds are related to this Project and are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Disposal and Collection Enterprise Fund during FY02 amounted to \$43,524,068.

**E) Employee Benefits**

**1) Deferred Compensation**

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (the Plan). The purpose of the Plan is to extend to employees a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. During FY99, in accordance with Federal legislation, the assets of the Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees. The Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. Under the Plan, contributions are sent to contracted investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses, which are not significant to the Plan, have been paid by the General Fund.

**2) Annual, Sick Leave, and Other Compensated Absences**

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Sick leave earned but not taken by June 30, 2002, totaling 4,840,502 hours approximates \$147,279,879 based on the salary scale in effect at that date. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

**3) Group Insurance Benefits**

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY02, the County and its employees contributed \$40,666,442 and 11,152,561, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$161,084, \$2,094,976, and \$46,707 for these component units, respectively, for FY02.

**4) Postemployment Benefits**

In addition to the pension benefits described in Note IV-F, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health and life insurance benefits to all employees who retire under the Employees' Retirement System and the Employees' Retirement Savings Plan. Prior to 1987, the County plan offered retirees the opportunity to contribute 20 percent toward the cost of group insurance benefits, with the County contributing 80 percent of the cost. Under this arrangement, the County contribution continues for a length of time equal to the time the retiree was eligible for group insurance with the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987, are covered by a different cost sharing arrangement. Under this plan, the County's contribution to group insurance ranges from 50 percent to 70 percent depending on the employees' years of eligibility under the County's group insurance program. Under this arrangement, employees have a lifetime insurance benefit. Currently, 3,685 retirees meet those eligibility requirements for postemployment benefits.

Postemployment benefits, accounted for in the Employee Health Benefits Self-Insurance Internal Service Fund, are funded by an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were \$13,481,000 for FY02; retired employee contributions were \$5,340,339.

**F) Pension Plan Obligations**

**PRIMARY GOVERNMENT**

**1) Defined Benefit Pension Plan**

**Plan Description** - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation.

The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of nine trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 11 N. Washington Street, Rockville, MD, 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994, of the County, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Chapter 33 of Montgomery County Code, 1994, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Normal retirement benefits are 2 percent of the final 12 months' regular basic earnings for members enrolled prior to July 1, 1978, or 2 percent of the final 36-month average for members enrolled after June 30, 1978, multiplied by years of credited service (maximum 36 years) adjusted for cost of living. Benefit provisions are established under Section 33-42 of the Montgomery County Code of 1994, as amended. For most members, normal retirement is age 60 with five years of service or various combinations of age and years of service based on participation group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 1994, as amended. A member who terminates employment prior to five years of credited service is refunded his accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. During FY02, total disbursements under these DROP Plans amounted to \$386,198.

**Derivatives** - At June 30, 2002, direct investments in derivatives represented 1 percent of the total fair value of the System's portfolio. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual funds which hold derivative financial instruments.

**Concentrations** – The System does not have any investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5 percent or more of net assets held in trust for pension benefits.

**Funding Policy** - Required employee contribution rates varying from 4 to 8.5 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 1994, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 1994, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

**Annual Pension Cost and Net Pension Obligation** - The annual required contributions (ARC) for FY02 were based on an actuarial valuation as of June 30, 2000, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made. The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY02 were as follows:

Fiscal Year	APC	Percentage of APC		NPO
		Contributed		
2000	\$ 44,347,078	100	%	\$ -
2001	43,345,296	100		-
2002	39,168,622	100		-

**Allocated Insurance Contract** - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

## 2) **Defined Contribution Plan**

**Plan Description** - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Chapter 33 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety (not in bargaining unit) employees hired on or after October 1, 1994, are covered under this Plan. In addition to the County, other participant agencies include the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., and the Washington Suburban Transit Commission. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan.

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions made to this Plan for FY02 were \$5,791,248 and \$3,307,782, respectively.

**3) Other**

The County contributed \$665,515 during FY02 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

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